

Independent Evaluation of the African Risk Capacity

Second Formative Evaluation Final Report

October 2022

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Preface

This report has been guided by the Evaluation Steering Group (ESG) and prepared as part of the Independent Evaluation of the African Risk Capacity (ARC), commissioned by the UK Foreign, Commonwealth and Development Office (FCDO) and undertaken by Oxford Policy Management (OPM). The report has been co-financed by Agence Française de Développement.

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Acknowledgements

The evaluation team would like to extend its thanks to a number of individuals who have contributed to this Second Formative Evaluation. These include the members of the ESG, including its chair Andrew Mude, who provided detailed comments and reflections on a draft of this report and on the evaluation questions and approach during the design stage. We would also like to thank other reviewers of draft versions of the report for their comments: Stephen Jones, Paula Jarzabkowski, Berber Kramer, Sophie Evans, Stevan Lee, and David Ameyaw. Thanks also go to Andrew Wilson and others at the UK Foreign and Commonwealth Office, as well as Benedict Alsac and others at the Agence Française de Développement, for financing the evaluation and for comments on the report. The team would like to thank all the staff and board members at ARC Agency and ARC Limited who gave up their time to answer questions and respond to requests for help. Special thanks go to Eva Kavuma, Abou Diaby, and Abdou Karim Dieye of ARC Agency and Ange Chitate of ARC Ltd, who have been key counterparts for the evaluation. We would also like to thank staff members of national governments and other key informants from across Africa and the rest of the world, who gave up their time to discuss their experiences or to participate in our survey. Your thoughtful reflections and honesty are much appreciated.

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Executive summary

Introduction

The **African Risk Capacity (ARC)** was established by the **African Union (AU)** in 2012 ‘to help African governments improve their capacities to better plan, prepare, and respond to extreme weather events and natural disasters’. The ARC Group comprises two entities. **ARC Agency**, a Specialised Agency of the AU, is tasked with building capacity in member countries to plan for and respond to climate disasters, including risk modelling through Africa RiskView (ARV), and to help raise awareness of ARC among AU member states and the broader public. The ARC Insurance Company Limited (**ARC Ltd**) is a financial affiliate delivering risk transfer services – particularly insurance.

Oxford Policy Management (OPM) was commissioned by the **UK’s Foreign, Commonwealth and Development Office (FCDO)** to conduct an independent evaluation of ARC over the period 2015–24. The evaluation is being conducted as a number of discrete studies. In 2021, an Evaluation Steering Group (ESG) was re-established, and it was agreed that work done under this contract would reflect the priorities of all stakeholders represented on the ESG. **This report presents findings from the Second Formative Evaluation (FE2), conducted in 2021–22.**

Overview and context

The operating environment for ARC has continued to evolve since ARC launched its first policy in 2014. Countries have recently been subject to considerably more economic stress as **Covid-19 has caused the worst recession in Africa in 50 years**, slow vaccination rates are limiting economic recovery, and public debt levels are rising. Overall, the same challenges that plagued international support for drought in 2014 remain – despite early warning, international funding to mitigate and respond to drought continues to be slow. This is concerning, considering that the frequency and intensity of disasters relating to natural hazards are already high and are increasing, driven primarily by climate change, population growth, and urbanisation. Climate-related disasters affect tens of millions of people every year in Africa, and mitigation and response efforts are insufficient to address the challenge.

Interest in strengthening disaster risk financing (DRF) mechanisms has grown substantially, both globally and in Africa, albeit from a very low base. When ARC was founded, DRF was not well understood in Africa. This has started to change, with a general increase in understanding of, and engagement with, DRF in Africa, driven primarily by ARC and the World Bank. However, DRF is not yet institutionalised in most countries, and this produces a challenging context within which ARC is working to increase demand.

ARC has experienced major changes in its strategy, leadership, and governance in the last five years. Further organisational development remains a key requirement, and the ARC Treaty has come into force, with major implications for ARC’s growth and uncertainties around staffing and location. **ARC’s portfolio has also grown**, with two new products (rangeland drought and tropical cyclones), and others (outbreaks and epidemics, and floods) under development, and ARC Replica having been introduced. However, concerns over

basis risk in the crop drought model remain, leading to increasing dissatisfaction among several member states. The introduction of premium subsidies has contributed to a **significant growth of the pool**, but ARC's five-year goals for coverage and capacity building are extremely ambitious, without a clear path to achievement. Up to January 2022, donors had provided around US\$ 250 million to ARC (US\$ 100 million for ARC Agency, US\$ 100 million as capital, and US\$ 46 million in premium subsidies).

Evaluation approach

The FE2 objective and evaluation questions were revised to respond to stakeholder priorities and changes in ARC and its context. The **revised FE2 objective** is 'to assess the extent to which ARC is cost-effectively contributing to disaster response and disaster risk management (DRM)¹ capacity development in member states, growing demand for its services and products, and developing a basis for long term sustainability'. The evaluation is **theory-based** and uses **mixed methods** to test ARC's theory of change (ToC) and answer the following **evaluation questions**:

- **EQ1:** To what extent – and how – is ARC contributing to building systemic DRM capacity of member states to anticipate, plan, finance, and respond to climate-related disasters?
- **EQ2:** To what extent does ARC represent value for money (VfM) for countries, beneficiaries, and donors?
- **EQ3:** Is ARC establishing and increasing demand for its existing (and forthcoming) products and services?
- **EQ4:** What is the likelihood of the longer-term sustainability of the ARC Group?

The **focus of the evaluation is on ARC's drought product**, although other products are considered with regard to sustainability and demand for services. ARC Replica is only considered in so far as it contributes to the development of country capacity and provides a possible source of future demand. Household-level impact is not a focus.

Evidence sources include key documents, semi-structured interviews (64 individuals), and a more structured online 'perceptions survey' (16 responses). EQ1 uses a sample of four countries that currently hold policies, two of which have had recent payouts. EQ3 adds other countries that have a memorandum of understanding (MoU) but have not purchased insurance in the last three years. The **VfM formative assessment** follows the approach set out in the agreed VfM framework and draws on evidence from the main evaluation. A separate cost–benefit analysis will follow.

The quality of evidence is generally high. Responses were good among current policy holders but were lower among members with no current policy and no MoU. The key limitations are the interview sample size and remote data collection due to Covid-19.

The **primary audiences** for the evaluation are the core evaluation stakeholders, which include the ARC Group, ARC's donor partners, member countries, the AU, the African Development Bank (AfDB), and other members of the ESG, as well as other ARC

¹ DRM in this document refers to DRM as supported by ARC, including ARV risk modelling and early warning systems, contingency planning, and risk transfer via insurance.

stakeholders, as well as the wider DRF and DRM community. The evaluation was overseen by the ESG and adheres to **recognised evaluation quality and ethics standards**.

ARC's ToC

ARC has developed substantially since the original ToC was developed in 2016, thus **a critical evaluation activity was to update the ToC** through a consultative process. The updated ToC provides a high-level description of how ARC see its overall strategy and expects to deliver its objectives, as follows.

ARC's goal is that member countries and their partners provide timely and targeted responses to protect the lives and livelihoods of vulnerable populations against disasters, thereby improving resilience. This is achieved through more timely and cost-effective targeted responses to natural disasters, outbreaks, and epidemics.

ARC contributes by helping to improve member states' capacities to plan, prepare for, and respond to extreme weather events and disasters and to mainstream gender in DRM and DRF. This is done by improving access to, and the affordability, of ARC tools and products, and by improving the enabling environment for adoption of DRM and DRF strategies.

These are the results of ARC interventions and activities that are framed by ARC's three strategic objectives (innovate, strengthen, and grow). ARC innovates to improve the DRM tools and products available and ensure that gender is integrated. Activities under the 'strengthen' objective contribute directly to improved understanding, capacity, and ownership of ARC products and tools. Growth, through increased insurance coverage, increases the scale and sustainability of ARC operations.

The evaluation also developed **detailed sub-ToCs** for the three strategic objectives (innovate, strengthen, and grow), in order to understand the main activities undertaken to date and their expected results. Progress against the sub-ToCs is reported in the section on the ToC findings.

Summary of findings

EQ1: To what extent – and how – is ARC contributing to building systemic DRM capacity in member states to anticipate, plan, finance, and respond to climate-related disasters?

Capacity building in ARC's core areas of risk modelling, contingency planning, and risk transfer parameters (RTP) is a critical part of ARC's offering and, in recognition of the challenges, is identified in ARC's strategy as a high-priority action for all five years.

ARC has succeeded in building the capacity of 17 out of 35 member states to use its product – as measured by having a valid Certificate of Good Standing.² In relation to anticipating disasters, 20 countries use information from the drought risk model as one input (albeit not

² A Certificate of Good Standing is a reasonably proxy for capacity, as it requires a country to have an approved operational plan, to have customised ARV parameters, and to be in compliance with operational planning requirements.

always the most useful or trusted) in their national response planning. There are now more drought contingency plans in place, and plans are stronger than before ARC's engagement, but there remains scope to improve plans further. This is particularly evident considering that, despite timely payouts by ARC Ltd, distributions did not start within the expected 120 days of a payout in more than half of the cases, with recurrent delays due to challenges with government public financial management systems, targeting, and bureaucracy.

Capacity building on gender is just getting underway, and there remains an acknowledged gap in capacity building for monitoring and evaluation (M&E). Despite the clear commitment, little progress has been made on increased political engagement, and political support for ARC remains fragile.

ARC has aspirations to **build holistic DRM strategies** and its mission is to provide 'harmonised resilience solutions', but we found no evidence of this happening, nor a clear plan to achieve it. There is arguably a need for countries to be able to access independent, impartial technical input on DRF and DRM, but since ARC Group's core business is to sell insurance, ARC Agency cannot be seen as impartial and it does not have the budgetary space or capacity to provide a broader array of technical assistance (TA)

The capacity that ARC is building in member states does not appear to be **sustainable beyond its support**. A few countries now require less support at the technical and political levels, but most countries envisage requiring input for several years due to the technical and institutional complexity of ARC's work, low levels of existing knowledge, and high turnover in both political and technical roles. Capacity is being built, but in many cases, this remains at the individual level, with sustainable institutional or transformational capacity not created, and there are clear gaps in relation to lesson learning. ARC Agency does not have a clear model of how countries' capacity is expected to be strengthened, with the aim of moving towards graduation from the capacity building programme. While there are data on the number of people trained, ARC Agency lacks a framework for measuring and monitoring capacity building outcomes, and is thus unable to provide data to show if capacity has been built.

ARC's total annual costs for all its work towards its 'strengthen' objective – which can broadly be categorised as capacity building – are around US\$ 5.5 million, which is viewed by donors as unsustainable. ARC is seeking to reduce costs by developing an online learner management system (ARCADEMY). This shows promise, but it is not yet widely used. More radical solutions to reduce costs are required, perhaps working through national-level actors.

Progress against the gender KPIs has been slower than expected and gender is not yet well embedded across ARC's work; however, most respondents showed strong engagement with **gender mainstreaming**, with a sense that progress is being made at country level, though more so in Eastern and Southern Africa (ESA) than West and Central Africa (WCA). ARC's gender strategy is ambitious, seeking to mainstream gender across all national DRM, not only in ARC's operations. The evaluation found that there is strong intention around including gender in contingency planning, but that this is often not well operationalised in the Final Implementation Plan (FIP), and M&E weaknesses mean that it is not possible to know whether actual beneficiaries are as planned.

EQ3: Is ARC establishing and increasing demand for its existing (and forthcoming) products and services?

The size of ARC's risk pool has grown considerably in recent years, from three in Pool V (2018–19) to 13 in Pool VIII (2021–22), as well as the number of insurance products ARC offers. This growth has been driven largely by premium subsidies and Replica. However, the **number of countries with sovereign insurance policies has not grown in line with targets** and does not appear to be on track to achieve targets in the short term. The value of insurance sales has exceeded logframe targets, also driven by donor premium subsidies and increased Replica policy uptake. Uptake of ARC Agency support is generally in line with logframe targets on the number of Certificates of Good Standing and approved contingency plans.

Member countries frequently **value ARC's drought insurance highly** but caveat this with concerns about whether they will receive a payout when it is needed, and difficulties with the customisation of the drought risk model to their countries' needs. Factors which drive decisions to purchase drought insurance cited by sample country respondents include the expectation of receiving a payout when one is due, the price of premiums, confidence in the drought model, the relevance of drought to a given country, and the availability of other financial products for middle-income countries. Some respondents also noted that the scheme adds to a sense of ownership and empowerment to manage risk. Diminishing confidence in the drought risk model, due to difficulties with customisation and basis risk concerns, was identified as a key factor impacting demand for ARC's drought and other products, and often clouds positive perceptions of other parts of ARC's work.

Among other ARC products and services, ARC's **support to government capacity building is valued positively**, as its technical support for ARV customisation and for the operational plan and FIP. But confidence in the drought model's quantification of risk is considerably lower, despite efforts by ARC to review and improve the model. Replica is valued by ARC respondents as an opportunity to increase its scale and coverage to member states, while country-level respondents value Replica's increased coverage and additional technical expertise. Global DRF actors feel that ARC has not adequately recognised Replica's potential to increase risk coverage and support capacity building, focusing on its bilateral sovereign engagement with countries.

ARC is undertaking **activities intended to increase interest and demand among its member states** and is developing a portfolio of new products that respond to member country needs. This includes the following: new insurance products to meet country needs, such as flood insurance, for which there is high demand; meso-level insurance options; premium subsidy options to offset the cost for countries for financially constrained countries; and consideration of sub-sovereign products for countries that are less financially constrained. The pace of development of new sovereign products has been slow.

Partnership work that could help to bolster interest in ARC products and services, for instance by ensuring confidence in the forecasting model, improving communication to member countries about ARC's successes, and bolstering efforts to make insurance more affordable, has yielded few tangible results. There are concerns around ARC's approach to partnerships, which include the lack of a clear organisation-wide approach, being too *ad hoc*, and spreading itself too thinly among a broad range of partners.

EQ4: What is the likelihood of the longer-term sustainability of the ARC Group?

ARC's longer-term sustainability is uncertain. In the near term, its Fundraising Strategy identifies a US\$ 68 million funding gap for ARC Agency over the next five years. ARC's solution to fill this gap is through donor support; however, this is fragile and a number of donors appear to have lost confidence in ARC Agency due to various factors (including a lack of transparency to donors, prolonged product development timelines, and inadequate funding preparations, among other things). There is, however, an opportunity to rebuild that confidence. The same donors remain supportive of the principles underlying ARC's insurance products and the capacity building for member states.

There is a lack of clarity as to how ARC views its long-term funding solutions.

Insurance premiums represent one key source of income. However, the ARC Ltd growth strategy forecasts that sovereign premium payments will account for only a small portion of overall revenue. There are doubts about the realism of its growth and diversification ambitions. Sovereign insurance sales are also marred by weakened confidence in the drought risk model..

Regarding ARC's organisational setup, the **new Group Board provides cause for optimism regarding improved governance and accountability** across the ARC Group. This will need to be exercised clearly from its outset to ensure the renewed optimism is not lost. The **division of labour between ARC Agency and ARC Ltd is a cause for concern.** There is an understanding that ARC's treaty basis requires a division of the entities, but the current division of roles creates challenges and inefficiencies, including ARC Ltd having little oversight as to how the product it underwrites is developed, improved, marketed, and sold.

EQ2: To what extent does ARC represent VfM for countries, beneficiaries, and donors?

Working with key stakeholders, the evaluation formulated a **theory of value creation (ToVC)** to try to define ARC's core value proposition from the perspective of countries, beneficiaries, and donors. The ToVC identifies **three broad impacts needed for ARC to create value:** (1) smoothing household consumption and reducing the need for negative coping strategies; (2) greater predictability and smoothing of donor and sovereign humanitarian spending, compared to a typical humanitarian response; and (3) increased national ownership over, and sovereignty and sustainability in, country-level risk planning. The creation of this value relies on two key outcomes: (1) the reliable and timely availability of ARC resources; and (2) increased country capacity to effectively plan for and respond to shocks, requiring effective capacity building by ARC. The theory identifies five critical factors that underpin ARC's ability to provide value. VfM is assessed against four key criteria: economy, efficiency, effectiveness, and equity.

The evaluation found that ARC Group is generally performing just within expectations across most (but not all) critical VfM factors, and there is significant scope for improvement.

Economy: adequate. ARC Ltd's high operational costs undermine VfM. ARC Ltd's reinsurance levels were 81% of the total expected payouts in 2021. Operating costs were US\$ 4.1 million, a value substantially higher than the Caribbean Catastrophe Risk Insurance

Facility (CCRIF) (US\$ 2.4 million), which has a larger operation than ARC Ltd. The four sampled countries with policies generally report drought insurance to be good value, but this is heavily caveated due to lack of previous payouts, price of premiums, and confidence in the forecast behind the drought risk model. Despite the availability of subsidies to support policy purchases, only 16 out of 36 member states had bought at least one drought policy by 2021.

Efficiency: adequate-to-good. Payouts by ARC to governments are generally reliable and timely, and ARC is providing high-quality capacity building support to member countries, although there are concerns about whether ARC is sufficiently focused on long-term technical capacity. There are significant concerns around the technical quality of the drought risk model and basis risk management.

Effectiveness: poor-to-adequate. ARC has contributed to the design and implementation of appropriate interventions. However, while final implementation plans were consistent with operational plans, none of the last four evaluated drought responses reached beneficiaries within a sufficiently timely manner, i.e. four months of the payout, mainly due to issues outside of ARC's control. As a result, in two of the three payouts with sufficient data, the assistance helped households with food consumption in less than half of the households, which is not a significant proportion of households deemed to avoid negative coping strategies. ARC has, however, contributed to country-owned risk management strategies in some member countries, most notably Senegal and Madagascar.

Equity: poor. Final implementation plans contain intervention targeting criteria, identifying vulnerable sub-groups, with geographic targeting based on needs assessments. However, due to poor M&E for all of the payouts, disaggregated records on beneficiaries who received assistance were not kept for any of the payouts, despite commitments to do so. Due to problems with targeting data and processes, the extent to which interventions were delivered to the most in need could not be ascertained. The failure to ensure that interventions are always delivered to those that most need them represents poor VfM.

This report provides a detailed VfM assessment and recommendations to help ARC improve its VfM in Chapter 6 and Annex D.

Findings on the ToC

Progress against each sub-ToC was rated using a red, amber, green (RAG) rating scheme, with green indicating positive progress, amber indicating some progress but also challenges, and red indicating little progress and significant challenges. Overall, the evaluation found **relatively limited progress to date against the three sub-ToCs.**

Most positive is work on strengthening government DRM capacity in relation to ARC's products (ARC Strategic Objective 2) (amber-green), which is well established and universally valued by governments. Like all capacity building programmes, it is undermined by high levels of turnover in governments, and there is a lack of a clear strategy to address turnover and graduate countries out of support. Most fundamentally, the capacity building is not managing to address the lack of timeliness in reaching beneficiaries. Despite progress in some areas, including gender, **innovation and development work** (Strategic Objective 1)

(amber-red) has been hampered by the slow rate of development of new sovereign insurance products and remaining concerns around the crop drought model.

Sales of insurance products have grown at a slower pace than was expected (Strategic Objective 3) (amber-red), and ARC has no clear strategy for attracting new client countries, although Replica and premium subsidies have supported growth in the value of sales. The number of countries engaged with ARC has increased, but treaty ratification has flatlined, representing a major threat to growth if eligibility to purchase insurance depends on ratification, as is planned from 2023.

The evaluation does not include an assessment of progress against the overall ToC. However, the VfM analysis identified significant concerns about **the failure of aid to reach recipients within the expected timeframe in the majority of cases**, raising doubts that member states have sufficient capacity to deliver to agreed plans. Although beyond the direct control of ARC, this represents a substantial failure of the overall ToC to hold along its core pathway.

Conclusions

Organisational mandate, scope, focus. Most respondents agree that ARC's mandate is clear, and ARC has developed a high level of buy-in. However, there needs to be greater clarity on ARC's core value proposition relative to alternative mechanisms to inform strategy, prioritisation, and ARC's case for support from international development partners. ARC is spreading its efforts too thinly in a number of areas. There is an inherent conflict between selling insurance and developing capacity in DRM.

Organisational issues. A number of respondents suggested some ARC Agency processes are inefficient. ARC Ltd's operational costs are on the high side, pushing up premium prices. Individual remuneration costs are often high in ARC Agency relative to some comparators, and ARC Agency appears to be 'top-heavy' in terms of the proportion of high-paying roles. Donors have raised issues about governance, transparency, and responsiveness in ARC Agency. The division of roles between ARC Ltd and ARC Agency is observed to be sub-optimal, with opportunities for substantial improvement.

Business model and financial sustainability. There are substantial uncertainties around how ARC may be financed in the longer term. ARC Ltd's growth strategy identifies premiums from new product lines and non-sovereign business as a key source of income. However, current trends suggest this may not be realistic. ARC Agency's funding strategy requires substantial donor support, which may not be forthcoming at the proposed level and in the face of concerns from some donors.

Growing the risk pool. ARC has generally exceeded its logframe targets for the monetary value of insurance sales and the number of member states with Certificates of Good Standing and contingency plans. However, sales trends are heavily dependent on premium subsidies by donors. ARC missed its targets for the number of policies taken out and has no clear strategy and outreach plan to bring in new members. There is no strategy to increase the number of Replica policies.

Risk modelling using ARV software. ARC has a clear Customisation Quality Review process and all countries use ARV results as an input in their early warning systems. However, perceived problems with the model, compounded by basis risk problems, have led to a loss of trust in the model and payout decisions. ARC has reported improvements to the model, but these have been limited to new features and refinements, rather than more fundamental changes.

Capacity development. ARC's support is universally valued by governments. Capacity is strong in two countries, and the increase in the number of drought contingency plans on the continent has supported drought response. However, most countries still require significant ARC involvement, calling into question the effectiveness and long-term sustainability of capacity building. It is worth considering whether and how other in-country organisations could act as resources to help with capacity building.

Gender and vulnerability. ARC has an ambitious gender strategy and has started considerable work on gender equality, but there is still much to do to institutionalise gender in ARC's core functions. There has been good reception of ARC's gender work at the country level, but there is more to be done to fully reflect gender and other vulnerabilities in FIPs and in the implementation of interventions.

Timeliness and impact of support to households. ARC-financed support has helped some households to avoid negative coping strategies but this impact was undermined where there were delays in the support reaching beneficiaries. Evidence that targeting criteria/processes in FIPs were not followed suggests that government interventions are not well targeted, and poor M&E systems mean that it is often not possible to know which households have been reached.

ARC VfM. ARC is performing just within expectations across most, but not all, VfM factors, and there is significant scope for improvement. ARC needs to reduce operating costs and reinsurance levels in order to lower the cost of policy premiums, and to find ways to support governments to improve the implementation of their drought responses.

Recommendations

While ARC has made progress since the last formative evaluation, it is clear that there are a number of critical issues that still need to be addressed. A comparison with recommendations made in the first formative evaluation shows a number of similarities. It should also be recognised, however, that ARC is by far the most ambitious of the regional risk pools, with an explicit focus on supporting vulnerable people and building national capacity, as well as being the most transparent. Recommendations are summarised below, with more detail given in the report.

Recommendations for ARC

1. ARC Group should **clarify and agree its core 'value proposition'** with its main stakeholder groups. This means identifying the different areas of impact to which ARC is expected to contribute and how well it is able to do so relative to other instruments. Different stakeholders may attach different levels of importance to each and there are trade-offs between them. Questions should also be addressed regarding the focus on

insurance, compared with other instruments, and on the priorities for capacity building. Once agreed, ARC should focus on delivering to its core value proposition in the immediate future and avoid widening ambitions until this is being delivered.

2. ARC Agency needs to **identify strategies to help recipient governments improve implementation of their drought response** – particularly the timely, sufficient, and well-targeted delivery of support. This requires systematic learning from process evaluations and a stronger country focus on the delivery and monitoring of assistance.
3. **ARC must address the immediate funding crisis faced by Agency**, which will impact both Agency and Ltd. This will depend on support from international development partners with whom ARC has an existing relationship. It should be addressed through the agreement of a **two-year reform plan**, coupled with an **inclusive strategy development process** that sets out how longer-term challenges will be addressed after the end of the current strategy period in 2024.
4. **For the two-year reform plan**, reforms should be prioritised and agreed with key stakeholders. This should be developed into a sequenced plan with clear, time-bound, and monitorable milestones. The following areas should be considered as potential priorities for this plan:
 - o Improving transparency in budgeting and in the reporting of expenditure, demonstrating that resources are being directed to priority areas and used efficiently
 - o Operational costs for both ARC Agency and ARC Ltd should be reviewed and where possible reduced, based on a clear understanding of current expenditure patterns and the drivers behind them. The objective should be to improve overall VfM, not simply cut costs.
 - o ARC should commission a fundamental external review of the drought model. Improvements made should be communicated to member countries.
 - o ARC must agree with its main stakeholders on how product development will be improved, addressing the issue of whether it is managed by ARC Agency or ARC Ltd and whether it is undertaken internally or outsourced. ARC should rapidly implement the agreed resolution.
 - o The effectiveness of the working relationship between ARC Agency and ARC Ltd should be improved in other areas where this can be addressed without structural change.
 - o ARC must continue to grow sales, improving marketing and removing limitations imposed by the treaty. Premium subsidies should be secured and growth in the sales of Replica policies should be pursued.
5. ARC should develop the ARC Group Strategy for post-2024 during the two-year period. This should provide a clear outline of how it will address both high-level strategic questions as well as other financial, organisational, and operational issues that are not addressed prior to 2024. The process needs to involve a wide group of stakeholders, including the AU and the development partners who will be asked to finance it.
6. The strategy process must examine and resolve the more fundamental questions about the structure and mandate of ARC. This should include: the fundamental question of

ARC's core purpose and value proposition; the question of whether ARC Agency and ARC Ltd should continue to operate under a unified strategy and Board; the treaty basis for ARC; and ARC's relationship with the AU and with the World Food Programme (WFP).

7. ARC requires a coherent medium-term financing strategy based on an appropriate structure and organisational model, with costs that are reasonable and likely to be sustainable. It should more clearly delineate the expected market for its products and develop a realistic path to growth of sales, including a clearer and more structured strategy for engaging new countries and entry into new markets. ARC Agency needs a more detailed medium-term financing strategy, which manages the tension between depending on donor funding and being an AU specialised agency. It should consider how member countries may contribute to costs, and explore options for funding from the AU and other potential sources.
8. ARC Agency should develop a more strategic and systematic approach to capacity building. This should address: how countries will graduate out of support; how country-level capacity can be retained; how it will measure progress towards stated objectives; and how unit costs can be minimised and brought within a realistic operating budget, potentially through making more use of in-country partners. It should also make use of more tailored approaches to capacity building in each country and should strengthen monitoring, evaluation, and learning (MEL).
9. ARC should use the development of the post-2024 strategy to identify how it will strengthen a number of core functions. These include: developing clear 'delivery strategies'; strengthening learning and knowledge management functions; making country engagement more systematic; institutionalising gender issues; and reviewing partnerships, in particular with the World Bank.

Recommendations for the ARC Board

1. The Board should **oversee and drive responses to this evaluation, signing off and overseeing delivery of the two-year reform plan.**
2. The Board should **lead work on addressing the most fundamental questions around ARC's purpose and constitution.** This should include the issues of: ARC's value proposition and purpose; ARC structure; the treaty basis of ARC; and ARC's relationship with the AU.
3. The Board should **oversee the process of developing the next strategy**, ensuring it addresses priority issues through an inclusive process.
4. The overall Board and the Board of ARC Ltd should **provide pressure to control costs and maximise VfM.**

Recommendations for the AU Secretariat

1. The AU Secretariat should be **an active participant in discussions establishing ARC's value proposition and long-term vision.**

2. The AU Secretariat should lead a process to **establish what role and relationship ARC should have within the AU mandate and structure**, including in relation to other specialised agencies that help address DRM needs. It should propose, together with other stakeholders, whether ARC should move to a relationship more typical of specialised agencies, receiving funding and having a direct line of accountability to the AU.

Recommendations for member countries

1. Engage actively in **discussions on ARC's core value proposition**.
2. **Better institutionalise** capacities developed through ARC support.
3. Strengthen M&E systems and **improve reporting and learning from their drought responses**.
4. **Speed up the response** time, from payout to assistance reaching beneficiaries.
5. **Collaborate more closely with country-based organisations** whose expertise in DRM and DRF may help to increase the efficiency and effectiveness of government emergency drought responses.
6. Enhance **capacity to implement targeting processes**, with attention to gender and equity issues.

Recommendations for donors

1. Engage actively in **discussions on ARC's core value proposition** and consider how services that ARC will not provide (potentially including building comprehensive DRM capacity and providing all risk transfer instruments) should be delivered.
2. Agree on shared objectives for ARC and how to best combine funding in support of ARC, in order to **avoid setting up competing priorities for ARC**.
3. Monitor whether there are **improved levels of accountability, transparency, and communication** from the new Board, raising concerns if this does not materialise.
4. Should donors agree that ARC has developed a credible, monitorable plan to undertake priority reforms, they should provide sufficient, **predictable finance for the next 24 months** to allow ARC to do so and to develop a coherent strategy for the post-2024 period. They should also commit to stable, longer-term financing and provide funding through a streamlined channel.
5. Facilitate engagement and actively support **collaboration between ARC Group and World Bank operations**.

Lessons are also identified for other risk pooling mechanisms and for donor partners in the concluding section.

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List of abbreviations

ADRF	Africa Disaster Risk Financing programme of the World Bank
ADRFi	Africa Disaster Risk Financing Initiative of the African Development Bank
AfDB	African Development Bank
ARC	African Risk Capacity
ARV	Africa RiskView
AU	African Union
BNGRC	National Risk and Disaster Management Office
Cat DDO	Catastrophe Deferred Drawdown Option
CBA	Cost–benefit analysis
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CH	Cadre Harmonisé (Harmonised Framework)
CNGRC	National Risk and Disaster Management Committee
COO	Chief Operating Officer
DAC	Development Assistance Committee
DFID	UK Department for International Development
DRF	Disaster risk financing
DRM	Disaster risk management
DRR	Disaster risk reduction
EQ	Evaluation question
ESA	Eastern and Southern Africa
ESG	Evaluation Steering Group
EU	European Union
EQ	Evaluation question
EQALS	Evaluation Quality Assurance and Learning Service
FCDO	UK Foreign, Commonwealth, and Development Office
FDMS	Food Deficit Mitigation Strategy

FE1	First Formative Evaluation
FE2	Second Formative Evaluation
FID	Intervention Fund for Development
FIP	Final Implementation Plan
GDG	Group Director-General
GDP	Gross domestic product
GESI	Gender, equity, and social inclusion
GRiF	Global Risk Financing Facility
HSCT	Harmonised Social Cash Transfer
IFAD	International Fund for Agricultural Development
IPCC	Intergovernmental Panel on Climate Change
KfW	Kreditanstalt für Wiederaufbau
KII	Key informant interview
KPI	Key performance indicator
M&E	Monitoring and evaluation
MAM	Moderate acute malnutrition
MEL	Monitoring, Evaluation, and Learning
MoPSLSW	Ministry of Public Service, Labour and Social Welfare
MoU	Memorandum of understanding
MPSPAW	Ministry of the Population, Social Protection and Promotion of Women
MPSLSW	Ministry of Public Service and Social Welfare
MUAC	Mid-upper arm circumference
NGDI	Next Generation Drought Index
NGO	Non-governmental organisation
NOAA	National Oceanic and Atmospheric Administration
O&E	Outbreaks and epidemics
OECD	Organisation for Economic Co-operation and Development
OP	Operational Plan

OPM	Oxford Policy Management
PCRIC	Pacific Catastrophe Risk Insurance Company
RTP	Risk Transfer Parameters
SAM	Severe acute malnutrition
SDC	Swiss Development Corporation
SEADRIF	Southeast Asia Disaster Risk Insurance Facility
SOPs	Standard operating procedures
TA	Technical assistance
ToC	Theory of change
ToVC	Theory of value creation
TRC	Technical Review Committee
TWG	Technical Working Group
UNDRR	United Nations Office for Disaster Risk Reduction
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund
US	United States
USAID	United States Agency for International Development
VAC	Vulnerability Assessment Committee
VfM	Value for money
WASH	Water, sanitation, and hygiene
WCA	West and Central Africa
WFP	World Food Programme
WRSI	Water Requirements Satisfaction Index
ZimVAC	Zimbabwe Vulnerability Assessment Committee

1 Introduction

1.1 The African Risk Capacity

ARC was established by the AU in 2012 ‘to help African governments improve their capacities to better plan, prepare, and respond to extreme weather events and natural disasters. Through collaboration and innovative finance, ARC enables countries to strengthen their DRM systems and access rapid and predictable financing when disaster strikes to protect the food security and livelihoods of their vulnerable populations’ (ARC, undated).

ARC comprises ARC Agency, a Specialised Agency of the AU, and ARC Ltd, a financial affiliate that delivers risk transfer services. ARC Agency is tasked with building capacity in member countries to plan for and respond to climate disasters, including risk modelling through ARV, ARC’s proprietary software application, and to help raise awareness among AU member states and the broader public of ARC’s mission and goals.

1.2 Overview of the ARC evaluation

The United Kingdom’s FCDO was a founding donor of ARC’s start-up capital and has supported ARC Agency. In November 2015, the FCDO (then the Department for International Development (DFID)) commissioned OPM to carry out an independent evaluation of ARC over the period from 2015 to 2024, focusing on ARC’s role in enabling a timely response following an extreme climate disaster, such as drought or flooding, before the livelihood situation of affected households becomes critical.³

The evaluation design, as set out in the ARC Evaluation Inception Report (OPM, 2017a), envisaged conducting two formative evaluations and two rounds of impact studies. The overall impact evaluation approach is based on contribution analysis, through collecting a variety of information to test the extent to which the ToC is holding, and to develop and test contribution stories to provide a rigorous qualitative assessment of ARC’s contribution.

OPM carried out a first formative evaluation (FE1) of ARC in 2017 (OPM, 2017b). This highlighted the positive contributions ARC was making to raising awareness and building capacity in relation to DRM and risk financing in case study countries. Some areas for improvement for ARC were identified, particularly in its approach to ensuring sustainability through fostering demand for its insurance product and building a robust risk pool.

OPM was due to undertake an FE2 in 2019, to build on this work and further assess ARC’s organisational efficacy. However, this was placed on hold as the number of insured countries had diminished and ARC was undergoing significant organisational change at that time. In

³ One key objective of the evaluation is ‘to test if risk pooling and transfer is a cost-effective way to incentivise contingency planning and ensure rapid responses to drought and other extreme weather events’ (Terms of Reference, p. 2).

the interim, OPM undertook a pilot of the country case study approach for the impact phase of the evaluation. This was undertaken in Senegal during 2020–21.

Senegal was selected for the pilot because drought in 2019 triggered insurance payments from ARC both to the Government of Senegal and to the Start Network⁴ under ARC Replica, which provides insurance for humanitarian actors. The Senegal pilot found, *inter alia*, the following: the ARC model can succeed in building national DRM capacity and improving response, though sustaining this without ongoing support is uncertain; the Replica model can improve the effectiveness of coordination, and may provide an opportunity for more innovative approaches to support implementation; and making reliable empirical estimates of the household impact of drought relief and related aid would require a well-designed and integrated strategy for data collection and analysis planned in advance of the onset of the emergency.

1.3 Second formative evaluation

The design of FE2 is set out in a detailed design note (OPM, 2021b). In 2021, FCDO, ARC, and the core donor group agreed that the OPM formative and impact evaluations should provide a joint, unique, and coherent set of evaluations, reflecting the priorities of all ARC donors and the ARC Group. This avoids the potential duplication and inefficiencies that would arise if other donor evaluations were to be undertaken separately. FE2 is guided by a newly revived ESG, which is working to ensure the evaluation's quality and relevance to both ARC and the donor group.

The design for FE2 builds on the extensive work done in the inception phase and during FE1. However, given the significant changes to ARC since FE1, refreshed consultations were undertaken to ensure FE2 addresses current key questions for ARC and its stakeholders. The evaluation questions and design for FE2 focus on those priorities, making use of earlier work but not being constrained by it. The evaluation is theory-based, in line with the overall evaluation design set out in the inception report (OPM, 2017a). Using this approach, the FE2 evaluation team has used a mixed method approach to collect data to test ARC's ToC and address the evaluation questions. FE2 continues to build the evidence base about ARC's contribution to its desired results.

The objective for FE2 is 'to assess the extent to which ARC is cost-effectively contributing to disaster response and DRM⁵ capacity development in member states, growing demand for its services and products, and developing a basis for long term sustainability'.

The evaluation questions for FE2 are listed below:

1. To what extent – and how – is ARC contributing to building systemic DRM capacity of member states to anticipate, plan, finance, and respond to climate-related disasters?
2. To what extent does ARC represent VfM for countries, beneficiaries, and donors?

⁴ The network in Senegal comprises six non-government organisations (NGOs): Catholic Relief Services, Action Contre la Faim (Action Against Hunger), Oxfam, Plan International, World Vision, and Save the Children.

⁵ Please note that where this document refers to DRM, this only applies to DRM as supported by ARC – this includes ARV risk modelling and early warning systems, contingency planning, and risk transfer via insurance.

3. Is ARC establishing and increasing demand for its existing (and forthcoming) products and services?
4. What is the likelihood of the longer-term sustainability of the ARC Group?

Learning and issues identified in FE2 will feed into the design process for the final evaluations, which will take place in 2023 and 2024. Their design and implementation will be undertaken under the governance and management arrangements outlined above.

1.4 Report structure

The remainder of this report is structured as follows: Chapter 2 provides an overview of ARC and its operating environment. Chapter 3 describes the methodology of the evaluation. The findings of the evaluation are presented in Chapters 4 to 7, addressing, respectively, capacity development, demand and sustainability, VfM, and the ToC. Chapter 8 presents the conclusions, lessons, and recommendations from the evaluation.

Additional information is provided in the following annexes. Annex A provides further information on the context within which ARC operates. Annex B outlines the refreshed ToC. Annex C includes the evaluation matrix. Annex D provides the details of the VfM assessment, while Annex E details the online survey. Annex F provides detailed recommendations on capacity building and Annex G presents the list of key informants.

2 Overview of ARC

This first part of this chapter describes how ARC works – its objectives, institutions, products, growth strategy, and finances. The second part briefly outlines ARC's ToC, developed as part of this evaluation, with further information provided in Annex B. The final section briefly outlines the environment that ARC is operating in, with more details given in Annex A.

2.1 How ARC works

2.1.1 The basics of DRF

Traditionally, responding to natural disasters in Africa has been largely reactive and has relied on international emergency appeals to secure funding *after* a disaster, which is often slow and insufficient. This problem becomes particularly acute in the case of drought, where appeals for international aid are not made when the rains fail, but months later when there is a severe humanitarian situation: where people are suffering from food insecurity, where malnutrition rates are rising sharply, and where people are using negative coping mechanisms, such as selling assets, getting into debt, taking children out of school, and other coping methods, which often hit women and girls the hardest and can have very long-term impacts and be extremely damaging to individuals' development.

DRF is a relatively new approach which aims to counter this by ensuring that countries plan in advance for disasters. DRF requires governments to understand and quantify their risks and to develop a strategy for dealing with the different risks that they face. For DRF to be most effective, countries need two things: a) mechanisms to swiftly provide adequate financing when it is needed; and b) early warning systems, clear plans, and systems in place to ensure that the funding flows rapidly and effectively in an emergency, providing swift support to those who need it. Pre-agreeing clear indicators and triggers for the funding, and the protocols for response, can support objective decision-making and response.

On the financing side, different instruments are used for disasters with different frequencies and impacts: this is called 'risk layering'. Typically, governments will need the following complementary instruments:

- Emergency or contingency funds, as part of the national budget, which can be mobilised for frequent, relatively small crises.
- Pre-arranged access to contingent credit, often on concessional terms (e.g. from international finance institutions) that can be triggered as soon as the crisis hits, for slightly larger crises (e.g. occurring once every three years).
- Insurance or other risk transfer mechanisms for major disasters occurring less frequently. Payments from the other risk pools – the CCRIF and the Pacific Catastrophe Risk Insurance Company (PCRIC) – are triggered for a one in 10-year event; for ARC this is once every four or five years.
- Humanitarian aid, for severe crises which are beyond the capacity of the government to respond.

ARC's insurance policies therefore can provide a financial solution to one of these layers of risk, and other mechanisms are required for more frequent disasters. Further, as with all regional risk pools, the intention is to provide rapid liquidity to lead to a swift response, not to cover the entire costs of the disaster. ARC's maximum payout is about US\$ 30 million, and thus would not be expected to cover all of the costs of a disaster.

Annex A.4 provides more detail on other DRF instruments in Africa, particularly the work of the World Bank – whose spend on DRF in Africa dwarfs all other programmes and projects – and the Africa Disaster Risk Financing Initiative (ADRFi) programme.

2.1.2 ARC's strategy

ARC was established by the AU in 2012. It is an African-owned, index-based weather risk insurance pool and early response mechanism that combines the concepts of early warning, DRM, and risk finance.

ARC has developed an integrated solution for African governments that includes the configuration of weather risk models, pooled risk insurance, and a capacity building programme in disaster risk and its management through risk financing, early warning, and contingency planning. The expectation is that the combined package of goods and services will provide better early warning information and allow African governments to better plan, prepare, and respond to weather risk emergencies, and in particular to provide a swifter response to drought, ultimately protecting vulnerable households through the rapid provision of support to disaster-affected people.

The **core value proposition of ARC's sovereign insurance** is based around the following:

- Responding rapidly to a disaster by delivering relief to affected households before they need to reduce their food consumption or sell off assets can help protect lives and livelihoods.
- Insurance risk pooling and transfer linked to effective early warning and contingency planning is a cost-effective way to incentivise planning and to ensure a rapid response to drought and other weather events, such as floods and tropical cyclones.
- Insurance that is triggered by parametric models can disburse funds quickly, often before other funding becomes available.
- With contingency plans in place, governments can respond quickly, addressing the needs of those impacted by disaster.

ARC's **expected impact** is manifested at many levels. First, through a pooled⁶ insurance model it should, on a continental scale, 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, through coverage from ARC insurance

⁶ A risk pool is a mechanism whereby individual risks are transferred and combined. That pool then takes on the risk profile of the group rather than the risk profile of each individual risk, combining the uncertainty of individual risks into a calculable risk for the group.

products, vulnerable households will be better protected from disaster risk through the receipt of timely support.

ARC's strategy has undergone several changes: the 2016–20 Strategic Framework (2016) was replaced by the 2020–24 Strategy (2019), which was then refreshed in November 2020. The refresh was undertaken to ensure the strategy adequately reflected changes to pool participation levels, shifting donor priorities, emerging DRF initiatives, new ARC leadership, and the Covid-19 pandemic.

Through these revisions, the strategic objectives have remained very similar, and are currently (ARC Strategy 2020 refresh) as follows:

- Strategy I: Innovate – A dynamic approach to research and development.
- Strategy II: Strengthen – Strengthen DRM on the continent.
- Strategy III: Grow – Increase the scalability and sustainability of ARC operations and insurance coverage.

There have been more substantial changes to the vision, mission, and goals (see Table 1), which no longer mention insurance at all, instead referring to 'harmonised resilience solutions' and innovative DRM solutions.

Table 1: ARC's vision, mission, and goal from 2016 to current strategy

ARC STRATEGY Innovate, Strengthen, Grow			
	VISION	MISSION	GOAL
2020–24 (refresh)	The development partner of choice, leading innovative pan-African DRM solutions for climate resilience in Africa.	To promote harmonised resilience solutions for protecting African lives and livelihoods vulnerable to natural disasters caused by climate change and other perils of importance to the continent.	ARC member states and their partners provide timely and targeted responses to protect the lives and livelihoods of vulnerable populations against natural disasters.
2016–20	Protect the livelihoods of vulnerable people in Africa against the impact of natural disasters through home-grown, innovative, cost-effective, timely, and sustainable solutions.	Create pan-African natural disaster response systems that enable African governments to protect the livelihoods of people at risk from natural disasters.	Indirectly insure 150 million people in Africa against the impact of natural disasters with US\$ 1.5 billion in coverage across 30 countries and channel a further US\$ 500 million in climate adaptation financing by 2020.

Source: ARC strategies

2.1.3 ARC structure and operations

Process at the country level: To be eligible to take out an insurance contract with ARC Ltd, member states must sign an MoU with ARC Agency and complete an extensive preparatory and capacity building process to receive a Certificate of Good Standing. A national Technical

Working Group (TWG) is set up, which brings together professionals from various government agencies to undertake capacity building on risk modelling, contingency planning, and RTP. The risk modelling component includes customisation of ARV, ARC's proprietary software application (see Box 1). In relation to contingency planning, countries prepare a detailed operational plan (OP), which is reviewed by an independent committee of technical experts who make recommendations to the ARC Agency Governing Board for approval. In the event of an insurance payout, a country is required to develop the plan into a FIP for the specific disaster and to re-submit it for Board approval. For RTP, government finance and disaster management experts learn about risk financing, how sovereign insurance works, and how they can select particular insurance parameters,⁷ which then impact on insurance payouts and premiums. The ARC approach is to work in partnership with each country to better understand and develop their 'disaster risk management priorities, institutional and policy environment, and existing programmes and priorities' (ARC, 2016).

A core objective of ARC is to ensure that assistance is received by vulnerable households earlier than is the case with typical humanitarian aid. From the receipt of the payout, the target is for assistance to reach the first beneficiary in 120 days and the intervention to be completed within the next 180 days. Assistance is typically provided to households as cash, food, livestock food subsidies, and/or nutritional support.

Box 1: Short description of the ARC risk model

ARC's risk model combines historical hazard data with data on vulnerable and affected populations in order to estimate response costs. Key features of the risk model for drought include the following:

- The Water Requirements Satisfaction Index (WRSI) is its main drought index, which estimates the extent to which the water requirements of the crop have been met from the time of sowing to the time of crop maturity. In order to determine if drought conditions at the end of a season are an anomaly, the WRSI at the end of a growing cycle is compared to a predefined benchmark.
- This is combined with information on vulnerability, developed from available household survey data from national government and WFP surveys.
- The model provides a forecast of end-of-season conditions, including the estimated number of people potentially affected by drought, and updates this information every 10 days until the end of the season.
- A payout is made when the rainfall deviation is sufficiently severe such that the estimated response costs – estimated by ARV – cross a certain predefined threshold, set by the country in conjunction with ARC.

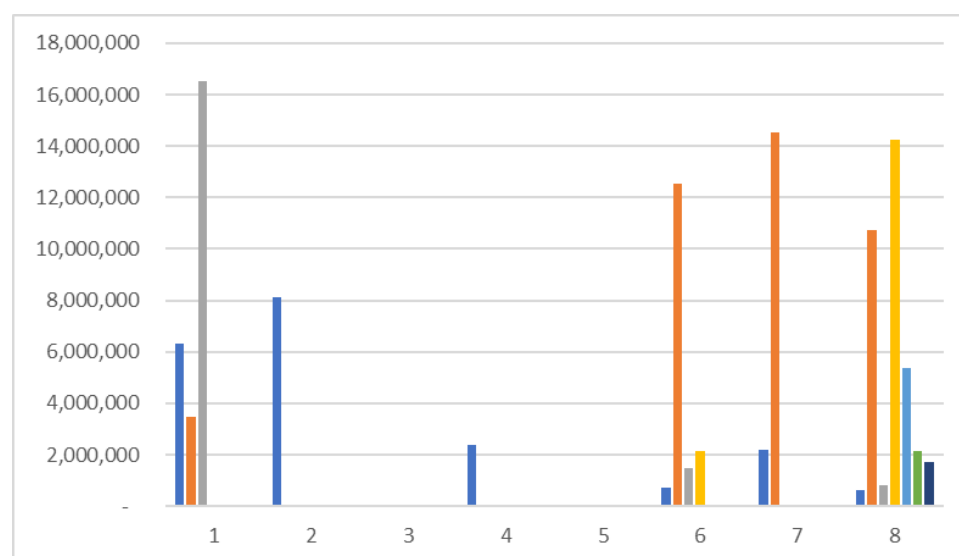
ARC risk modelling specialists work with technical specialists in countries to adapt and customise the model to each particular country; to adapt it for the relevant reference crop; to choose the most appropriate type of rainfall dataset; to provide information on crop types, sowing dates, or criteria for estimating sowing dates, start and end of season dates, water-holding capacity, percentage of effective rainfall etc; and to incorporate the vulnerability profiles.

Premiums and payouts. The maximum payout is around US\$ 30 million, but the actual amount depends on the severity of the drought and the governments' choices of RTP – such

⁷ The deductible/attachment point (the risk the country wants to retain and manage using other resources), the limit (the maximum payout a country can receive in the case of an extreme drought), and the ceding percentage (the percentage of the total modelled risk the country wishes to transfer to the pool).

as the deductible amount. Figure 1 below shows the payouts made by ARC to African governments (not including ARC Replica) in each risk pool. The average government payout to date is US\$ 5.9 million, but the figure shows the huge variation, with the maximum payout so far being the US\$ 16.5 million paid to Senegal, in Pool 1, and the smallest payout being the US\$ 647,162 paid to Côte d'Ivoire, in Pool 8.

Figure 1: Payouts in US\$ made to governments in each risk pool



Note that the payout to Mali from Pool 7 was actually disbursed in 2022 due to political factors preventing the payout in 2021.

As with all parametric models, 'basis risk' can occur where modelled losses do not reflect actual losses. There was a high-profile case of basis risk in Malawi in 2015/6, which resulted in a late payment of US\$ 8.1 million to the government. This was followed by an *ex-gratia* payment of US\$ 2.4 million made to Mauritania in 2018. In 2021, there were problems with the ARC2 dataset provided by the National Oceanic and Atmospheric Administration (NOAA), which did not reflect the situation in west Africa. As at March 2022, agreement has been made to make payments in relation to crop drought policies for Mauritania, Niger, and Burkina Faso-Replica – delays in reaching this decision mean that payments will arrive around six months later than expected.

Institutions: ARC comprises two entities: ARC Agency and ARC Limited.

- 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. A core role of ARC Agency is recruiting countries to join ARC's extensive capacity building programme on risk modelling, contingency planning, and risk transfer, with a view to them buying insurance policies. ARC Agency also includes ARC's research and development function, which is responsible for developing new models and overseeing the performance of existing ones.
- ARC Limited is a sovereign-level mutual insurance company that provides weather-related insurance coverage to member states. Beyond the provision of insurance contracts, ARC Limited provides training to country teams on RTPs, and engages reinsurers and capital markets to ensure competitive prices for the transfer of risk.

Governance and organisational change: ARC Agency and ARC Ltd have been brought together under ARC Group⁸ working to a single Group Director-General (GDG), who was appointed in mid-2020, a single strategy, and a Group Board, which was constituted in mid-2021. In addition, ARC Ltd has its own Board, as required for a company. There have been efforts to identify and move towards the optimal arrangement between ARC Agency and ARC Ltd through an organisational development process. This started in 2018 but was paused due to the arrival of the new GDG and then the Covid-19 pandemic; it restarted in late 2021. As at early/mid-2022, there is an internal ARC working group that is developing options for organisational development. Where appropriate, this report refers to ARC Agency, ARC Ltd, or merely 'ARC' which covers both ARC Agency and ARC Ltd.

Ratification of the ARC Treaty: ARC was founded in 2012 by a treaty of the AU. The treaty has 36 signatories and in 2021 achieved 10 ratifications. This means that the treaty comes fully into force, which perhaps represents a positive step towards ARC's effective institutionalisation, but has a range of other implications. These include: a) only countries that have signed the treaty will now be able to take a policy, which currently limits the maximum size of the pool to 11 countries⁹ until other countries ratify; this represents a major limiting factor in restricting pool growth in the very short term; b) as decided by the Conference of the Parties, ARC headquarters will move to a member country, Côte d'Ivoire (Abidjan), which will involve significant costs (time and money) to move, as well as creating uncertainty in relation to whether staff are willing to move. These two conditions will come into force in March 2023.

2.1.4 ARC's key products and services

ARC's core focus is at the sovereign level, and has been mostly on insurance policies. More recently, this has expanded to include humanitarian actors (through its Replica policies); other products are under development (see next sub-section). This brief sub-section outlines the core products to date.

Insurance products: Up until 2020, the only sovereign policy was for crop drought; this has been ARC's flagship product. ARC now offers two more policies:

- **Rangeland drought:** This is a simpler (i.e. less customisable) product than the crop product, focused on pastoralist areas. It was piloted in Kenya (2019–20) and west Africa (2020). Mauritania and Sudan took out both crop and rangeland policies in 2021/2.¹⁰
- **Tropical cyclone:** This covers wind, storm surge, and wave damages from tropical cyclones for countries in the south-west Indian Ocean region (Comoros, Madagascar, Mauritius, Mozambique, Seychelles, and Tanzania). It was launched in December 2020. Madagascar is currently the only country with a policy; Comoros was expected to take

⁸ Note that ARC Group is a concept of operational coordination under a joint strategic plan, approved by each Board of the ARC institutions, but has not been institutionally realized in terms of parent/subsidiary ownership of controls. The application of the term *ARC Group* was a compromise to indicate operational alignment in the absence of other structural reforms and until ARC Agency de-hosts from WFP.

⁹ Chad, Comoros, Cote d'Ivoire, Gambia, Guinea, Madagascar, Mali, Mauritania, Niger, Senegal, and Togo

¹⁰ Note that ARC expects this to substitute for all or part of the existing crop cover, rather than increasing the overall premium payment. However, there is interest from the private sector in using the index for insurance contracts in Kenya and Uganda.

out a policy in 2021/2 but did not. The policy does not provide coverage for excess rainfall – this will be covered under the flooding policy and is believed to be important to provide adequate cover.

Other sovereign insurance products are under development:

- The **Outbreaks and Epidemics (O&E)** policy is expected to be launched in 2022 (although we understand that there are challenges in onboarding the countries). This focuses on Ebola, Lassa Fever, Marburg, and Meningitis, and has been trialled in Guinea and Uganda. It has been the subject of considerable development effort by ARC.
- The **flood** policy is nearing completion. Research and development on this started in 2015, after much demand from member states. The initial model, based on microwave data, a modern remote sensing technology, was completed in 2019 but because of the complexity and assumptions the model's basis risk was too high for underwriting. This required a complete shift in design. The product may be launched this year.

Other products are also under consideration but are not yet near market.

ARC Replica – Launched in 2018, ARC Replica is a parallel scheme for humanitarian organisations which allows for increased coverage and brings governments and humanitarian partners together to strengthen coordination, preparedness, and response. There are currently seven ARC Replica policies: the Start Network (an international NGO consortium) is the Replica partner in Senegal and Zimbabwe and WFP is the Replica partner in Mali, Mauritania, Gambia, Burkina Faso, and Zimbabwe. Initially, a Replica policy could only be approved if the government also had a policy (as a way of incentivising governments to take a policy), but Replica and Sovereign policies can now be delinked, which provides greater flexibility in situations where a government is unable or unwilling to take a policy. Premiums are fully paid by donors (Kreditanstalt für Wiederaufbau (KfW) and the United States Agency for International Development (USAID) to date).

Another development is micro-insurance, which is being provided by ARC Ltd through the Non-Sovereign Business strategy mainly as reinsurance to schemes within specific countries. For example, ARC Ltd reinsurers the WFP R4 programme in Madagascar and is looking to expand this reinsurance in line with WFP's expansion of the R4 programme. Micro-insurance by its very nature is difficult to deliver at large scale due to the low premiums involved.

Another important addition to ARC's focus has been gender. With Canadian support, ARC has made gender a key strategic priority. This includes a gender strategy agreed in 2019,¹¹ a

¹¹ The three objectives of the gender strategy (ARC, 2021a), and progress against them, include the following:

1. At the continental level, institutionalise gender and DRM for innovative knowledge development and management. As part of this, ARC has launched the Gender and DRM Platform, a continental thinktank on gender and DRM that aims to aid all stakeholders to develop and disseminate knowledge through research, sharing of best practices, publications, etc.
2. Within member states, build institutional and individual capacities and tools for mainstreaming gender in DRM. This includes revising the MoUs of country engagement to integrate gender concerns, developing gender guidance notes, and reviewing OPs. A substantial gender analysis is being conducted in Zimbabwe (in partnership with the Africa Disaster Risk Financing Initiative (ADRFi)).
3. Advocacy and policy dialogue for a gender transformative DRM policy environment. As a first step, all ARC staff have received gender training.

commitment to mainstream gender in all country-based work, and a small, dedicated gender unit.

Box 2: ARC risk pools

(Where not specified, this refers to sovereign crop drought policies.)

2014–15: Kenya, Mauritania, Niger, Senegal.

2015–16: Kenya, Mauritania, Niger, Senegal, the Gambia, Mali, Malawi.

2016–17: Burkina Faso, Niger, Senegal, the Gambia, Mali, Mauritania.

2017–18: Burkina Faso, Senegal, the Gambia, Mali, Mauritania.

2018–19: Burkina Faso, Senegal, the Gambia.

2019–20:

- Sovereign: Chad, Côte D'Ivoire, Madagascar, Mali, Niger, Senegal, the Gambia, Togo, Zimbabwe.
- Replica: Burkina Faso, Mali, Mauritania, Senegal, the Gambia, Zimbabwe.
- 2020–21:
- Sovereign: Côte d'Ivoire, Madagascar (drought and tropical cyclones), Malawi, Mauritania, Niger, the Gambia, Togo, Zambia, Zimbabwe.
- Replica: Burkina Faso, Mali, Mauritania, the Gambia, Zimbabwe.

2021–22:

- Sovereign: Côte d'Ivoire, Madagascar (drought and tropical cyclones), Malawi, Mauritania (crop and rangeland), Niger, Senegal, Sudan (crop and rangeland), the Gambia, Togo, Zambia, Zimbabwe.
- Replica: Burkina Faso, Madagascar (drought), Mali, Mauritania (crop and rangeland), Senegal, the Gambia, Zimbabwe.

2.1.5 ARC growth and growth plan

ARC's original aspiration was to indirectly insure 150 million vulnerable African people against disasters through US\$ 1.5 billion in aggregate coverage across 30 African countries by 2020. However, this has not happened and in retrospect looks overly ambitious. To ensure its sustainability, ARC needs a large number of countries in the pool from different areas of Africa.¹² This was a challenge in the first years, with low numbers of countries holding a policy (typically four to six per year), predominantly from west Africa (see Box 2).

Affordability and premium subsidies: Many African countries are among the poorest in the world. They tend to have lower gross domestic product (GDP)/capita than CCRIF and PCRIF members, which heightens ARC's challenge of ensuring premium affordability. Average insurance premiums are around US\$ 1.5 million, but amounts vary: Mali and Senegal consistently pay around US\$ 2 million and US\$ 3 million, respectively. Affordability

¹² According to ARC Ltd, this would be in the region of 20 countries, from all regions of Africa, with a minimum average premium of US\$ 2 million.

and perceived VfM has been a challenge in fiscally constrained countries (FCDO, 2020)¹³ and the Covid-19 pandemic has made this worse.

The introduction of premium subsidies has helped to address this situation. According to ARC's guide for premium subsidies: 'The primary objectives of premium financing are to support the growth of the risk pool in the short to medium-term and increase coverage by:

- Providing additional premium financing for countries and humanitarian actors.
- Facilitating the uptake of multi-year and/or multi-peril cover by countries; and
- Incentivising increased ownership by countries (measured by an increasing proportion of premium paid by countries).

Premium financing is to be delivered over an agreed timeframe with a clear pathway towards full self-funding of premiums by Member States.'

Table 2 shows the contribution of premium support to overall premiums to date.

Table 2: Donor contributions for premium support to date (US\$)

Pool	Year	Total premium	Premiums paid by countries		Premiums financed by donors	
1	2014/5	17,000,000	17,000,000	100%		
2	2015/6	24,792,269	24,792,269	100%		
3	2016/7	11,310,491	11,310,491	100%		
4	2017/8	8,740,902	8,740,902	100%		
5	2018/9	4,814,683	4,814,683	100%		
6	2019/20	16,049,587	8,116,058	51%	7,933,529	49%
7	2020/1	20,728,697	4,431,126	21%	16,297,571	79%
8	2021/2	30,359,688	8,160,614	27%	22,199,074	73%
Total		133,796,317	87,366,479	65%	46,429,838	35%

Source: ARC Fundraising Strategy, 2022

Premium support is available to governments in the following ways:

- Via ADRiFi, initially running from 2019 to 2023. ADRiFi provides TA to develop national DRF strategies and subsidies of around 50% of total premiums over a five-year period. Premium subsidies are provided either from the African Development Fund (the concessional loan window of the AfDB) or through a multi-donor trust fund (currently funded by FCDO and the Swiss Development Corporation (SDC)).
- Bilaterally from donors. KfW provided significant subsidies in 2020 via its Covid-19 support, and the Premium Financing Facility was set up in 2021 by ARC Ltd as a vehicle for KfW premium subsidies and can be used by other donors. The International Fund for

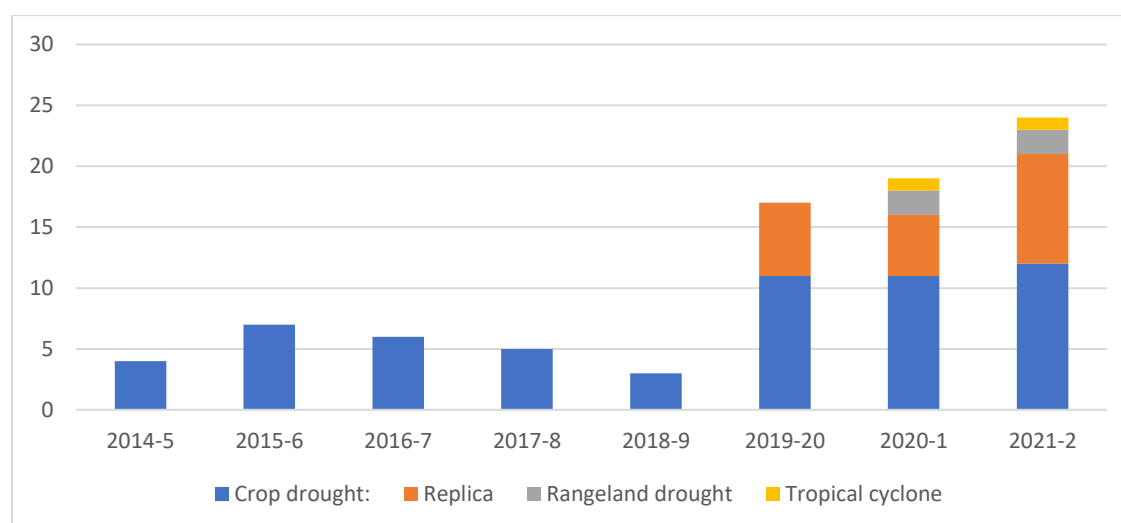
¹³ For example, due to fiscal constraints, Gambia raised its attachment point in 2019. Even though a drought was experienced, the attachment point was not reached, and no payout was received; this was in contrast to a very large payout being received by its neighbour Senegal. There has also been a steady reduction of coverage by Niger, due to affordability, as the budget has been reallocated to combat the terrorism threat on the country's borders.

Agricultural Development (IFAD) and SDC will also provide bilateral support to certain countries from 2022.

Up to January 2022, donors had provided US\$ 46 million in premium support and further commitments of US\$ 42 million are expected (ARC, 2022).

The increase in the number of policy holders has been significant – from around four to six countries in early years, to 12 countries having policies in 2021–2 – see Figure 2. ARC Replica has driven pool growth, with six policies in the first year and nine policies in the most recent. New products have also supported the growth – with two countries taking out rangeland insurance and one taking out tropical cyclone insurance.

Figure 2: Number of ARC countries and Replica partners with policies



2022–26 growth goals: ARC has extremely ambitious goals. According to ARC’s Fundraising Strategy (2022):

‘over the next five years (2022-2026), ARC aims to increase cumulative cover by over \$1bn and indirectly cover an additional 100 million people in vulnerable communities. ARC expects to increase the number of countries in the risk pools to cover all 35 signatory countries and eventually to provide its solutions across the continent. ARC will endeavour to simplify the process for acceding to membership so that countries that have found the process onerous can join. By expanding its country engagement teams, ARC aims to provide in-depth capacity building and training to all 35 signatory countries and new signatories over the long term.’

‘ARC aspires to be a lead partner, convener and catalyst for regional bodies, national governments, bilateral and multilateral development organisations, development finance institutions, NGOs, foundations, philanthropic organisations, and the private sector in all aspects of disaster risk management, financing, capacity building, policy advocacy, and knowledge management.’

The ARC Ltd Inclusive Growth Strategy (March 2020), refreshed Group Strategy (November 2020), and Fundraising Strategy (January 2022), provide some details around initiatives and products, but the evaluation team has not found any clear detailed articulation of how these goals will be met.

The ARC Ltd Inclusive Growth Strategy seems to be somewhat at odds with the Fundraising Strategy, as it outlines that growth is not expected to come from sovereign insurance products. This ARC Ltd growth strategy deems ARC's flagship sovereign crop drought policy to be 'below the efficiency line' and the current business model to be 'unsustainable'. One of the key reasons for this is the instability of income.

Of the aim for US\$ 100 million income by 2025:

- only around US\$ 10 million is expected to come from the drought policy;
- around US\$ 20 million is expected to come from new products and supranational policies; and
- the majority of estimated income is expected to come from reinsurance (US\$ 30 million) and retrocession¹⁴ (US\$ 30 million).

It is important to note that this strategy was written prior to a substantial increase in premium subsidies from donors, which may change the expected balance.

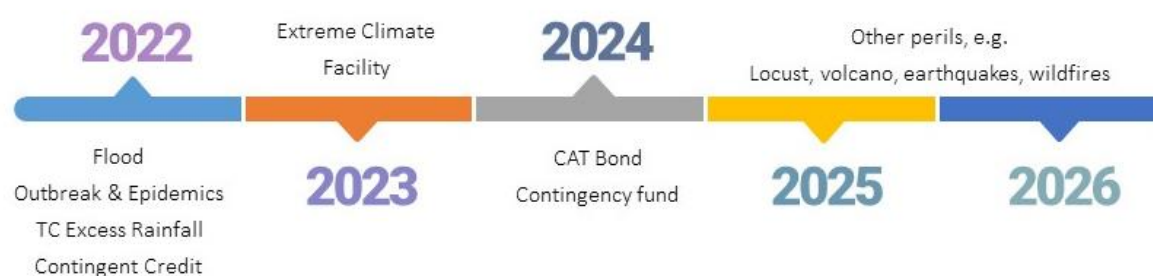
ARC Ltd growth plans are built across four different planks: market penetration, product development, diversification, and market development. Market development and diversification are high priorities for ARC Ltd growth, and work so far includes a focus on the following:

- Using reinsurance/co-reinsurance to provide access to insurance for smallholder farmers at scale through the agriculture value chain (e.g. seed companies, fertiliser companies, agricultural finance providers, government farmer subsidy programmes, NGOs). The first steps undertaken to this end include:
- a National Agricultural Insurance Scheme with Rwanda, Togo, Nigeria, and Uganda; and
- a US\$ 1 million equity investment in Pula (an agricultural insurance aggregator).
- Co-reinsurance and retrocession (providing reinsurance for the reinsurers) – strategic alliances are being built with Africa Re, Zep Re, and Continental Re.
- Developing sub-sovereign policies in Nigeria and Kenya (ARC Ltd, 2020).
- Developing risk transfer products for other risk layers – including starting discussions with Afreximbank on using ARV to trigger contingent loans below the attachment point and considering how to use catastrophe bonds for extreme events.

ARC continues to develop **partnerships** with other organisations operating in the DRF space to support these approaches. As well as the strong and positive partnership with the AfDB through ADRiFi, ARC is in various stages of agreeing partnerships with a range of other organisations, including IFAD, Afreximbank, Africa Re, Zep Re, the Centre for Disaster Protection, the United Nations Office for the Coordination of Humanitarian Affairs, and others.

Figure 3 below summarises the intended product portfolio. We understand that the tropical cyclone excess rainfall product will be ready in 2022, but contingent credit is less likely.

¹⁴ Where a reinsurer transfers reinsured risk to another reinsurer

Figure 3: Intended ARC product portfolio in the next five years

Source: Meisch (2021)

2.1.6 ARC finances

Up to January 2022, donors had provided around US\$ 250 million to ARC – this includes US\$ 100 million in grants for ARC Agency, premium subsidies of US\$ 46 million, and US\$ 100 million in loans for ARC Ltd capital. While funding is increasing for premium subsidies, ARC Agency faces a significant funding gap.

ARC Agency receives all its funding from donor grants. Unlike other risk pools, countries do not pay a joining fee. The ARC Agency budget is normally around US\$ 12–14 million; for 2021 it was US\$ 16.8 million (US\$ 12.2 million for core costs and US\$ 4.6 million for development costs for the Extreme Climate Facility and O&E).

A total of around US\$ 100 million has been provided from several donors – see Table 3 below. Recent donors to ARC Agency include SDC, Global Affairs Canada, France (Agence Française de Développement), and the European Union (EU) Commission. Some of this has been allocated to specific projects/initiatives – for example, SDC has prioritised funding for the development of O&E and capacity building in Zimbabwe and Zambia, while Canada has prioritised the gender work.

The ARC Agency Fundraising Strategy outlines a funding requirement of US\$ 68 million, from 2022 to 2026.

ARC Ltd's financing comes primarily from the following sources:

- Premiums – paid either by governments, donors, or ADRiFi. Subsidies now represent more than half of premium income and are an increasing income stream, with KfW announcing €18 million in premium support in November 2021.
- Capital – In 2014, the UK and Germany provided US\$ 50 million each to capitalise ARC Ltd; this is a 20-year interest-free loan, repayable in 2034.¹⁵
- Investments – ARC Ltd has an investment portfolio based on its capital.

¹⁵ This is in contrast to the other regional risk pools, which received grants for their capital.

Table 3: Contributions to ARC Agency – as at January 2022

Donor	≤2016	2017	2018	2019	2020	2021	Total
Canada (GAC)		12,208	6,037		6,018	6,338	30,601
EU					1,831		1,831
France (MAEDI)	2,654	1,895					4,549
France (AFD)				2,854			2,854
Rockefeller Foundation	7,465	138	650	150	150		8,553
Switzerland (SDC)	5,487		2,528	842	2,505	1,800	13,163
United Kingdom (DFID/FCDO)	9,713	2,863	2,086	521			15,184
USA (USAID)	1,048	5,048					6,096
Germany (KfW)	3,401						3,401
IFAD	220						220
Innovations Trust (WFP)	1,071						1,071
Sweden (SIDA)	10,066						10,066
Total	41,126	22,153	11,302	4,367	10,505	8,138	97,591

Source: ARC Fundraising Strategy, January 2022

2.2 ARC's ToC

The original ToC was developed with ARC in 2016, but ARC has developed substantially since then – with changes in its strategy and management, the introduction of ARC Replica, other insurance products, premium subsidies etc. Thus a critical activity for this evaluation was to update the ToC through a consultative process, to properly represent how ARC sees itself.

This ToC provides a high-level description of ARC's overall strategy and how it is expected to deliver ARC's objectives. It has both forward- and backward-looking elements. It has been welcomed by ARC as a good representation of its work and the evaluation team has taken this as ARC's statement of how it sees its ToC.

In addition to this, the evaluation requires more detailed sub-ToCs, which focus on the main activities implemented to date and their expected results. The team therefore developed three backward-facing sub-ToCs, structured around the three strategic objectives, to meet these requirements.

2.2.1 ARC overall ToC

The ToC articulates the causal pathway by which interventions are hypothesised to deliver the intended outcomes and impact. It groups ARC interventions under each of the three ARC strategic objectives and shows how they contribute to outcomes. Figure 4 shows a visual presentation of the updated ARC ToC.

ARC impact and long-term outcomes

ARC's goal is that member countries and their partners provide timely and targeted responses to protect the lives and livelihoods of vulnerable populations against disasters; the impact that ARC is contributing to is the improved resilience of vulnerable populations, including women and children, in member states.

The long-term outcome that ARC seeks to contribute to is timely and cost-effective targeted responses to natural disasters, outbreaks, and epidemics to protect lives and livelihoods. The two main outcomes contributing to this are i) improved capacities of member states to plan, prepare for, and respond to extreme weather events and disasters; and ii) improved capacity of member states to integrate and mainstream gender in DRM and DRF.

Short-term and intermediary outcomes

ARC's two main intermediary outcomes are: a) improved access to and affordability of ARC innovative tools and products by ARC member states; and b) an improved enabling environment influencing member states' adoption of DRM and DRF strategies.

These are the results of ARC interventions and activities that are linked to three interlinked short-term and intermediary outcomes, which are framed by ARC's three strategic objectives (innovate, strengthen, and grow). Activities under the 'strengthen' objective contribute directly to improved understanding, capacity, and ownership of ARC products and tools.

Work under this objective is complemented by ARC's work under the other two strategic objectives:

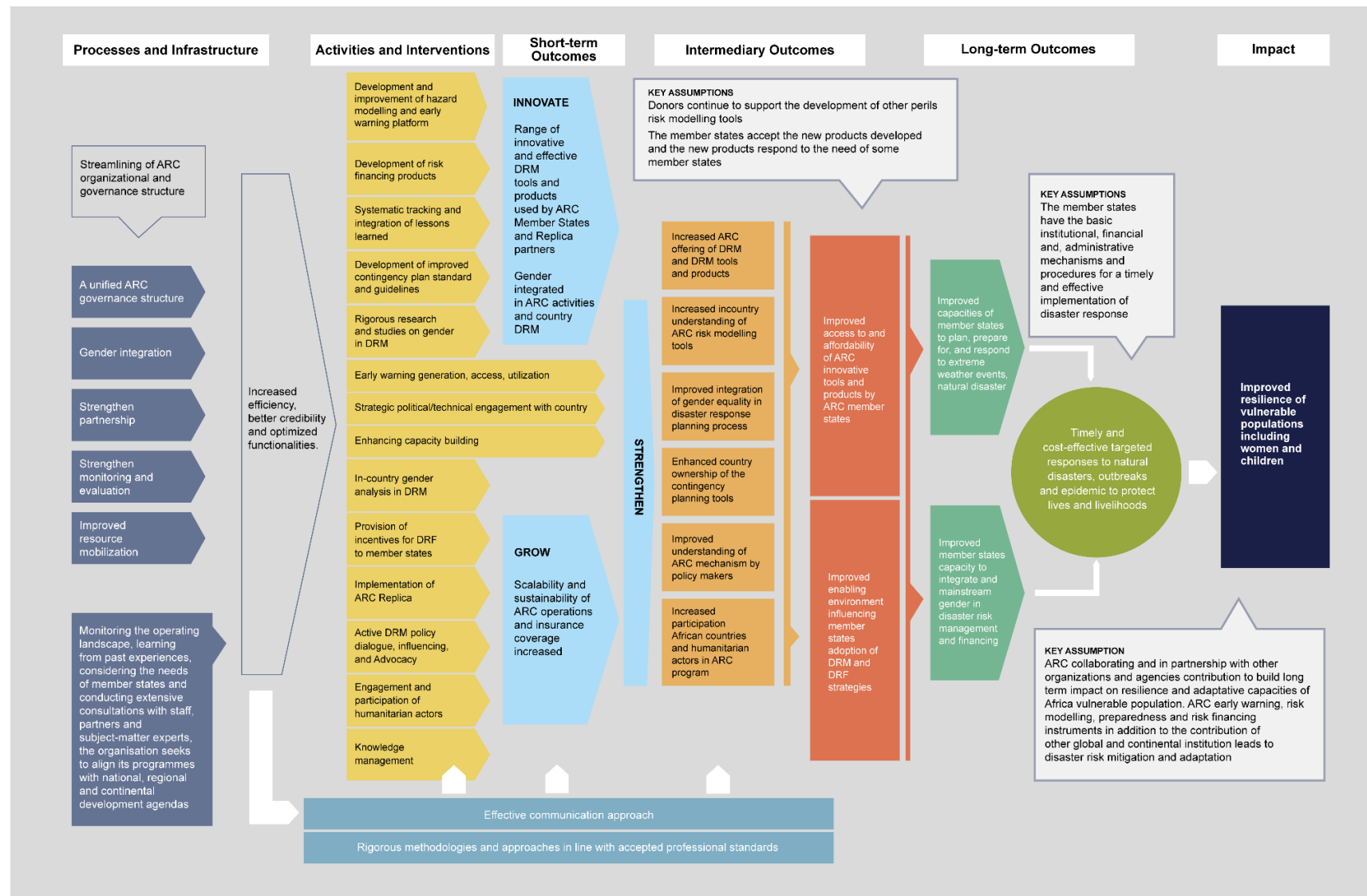
- To innovate solutions, enabled by research and development, with the objective of cost reduction, increased reliability, and greater credibility for ARC, which leads to the short-term outcomes that innovative and effective DRM tools and products are used by member states and Replica partners, and that gender is integrated into ARC activities and country DRM.
- To pursue growth, which leads to the short-term outcome that the scalability and sustainability of ARC operations and insurance coverage are increased.

Although condensed into a single diagram, all three pathways should operate simultaneously and over multiple timescales.

Evaluation team developments

The FE2 team reviewed the ToC as part of their work. The team identified additional assumptions that it believes are critical to the overall ARC ToC. These assumptions are listed in Annex B.

Figure 4: Overall ARC ToC



2.2.2 Sub-ToCs

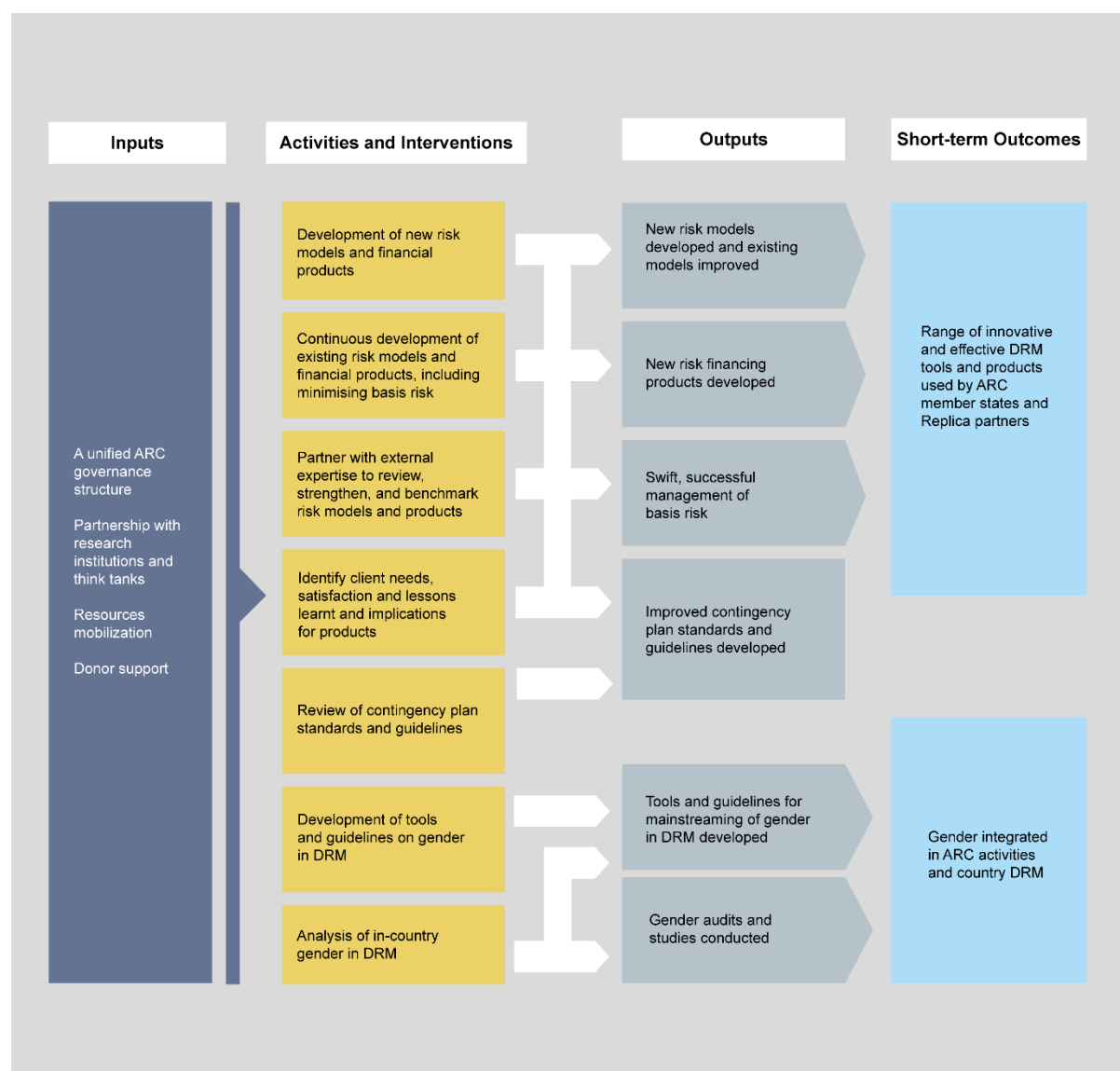
The evaluation team developed sub-ToCs to meet the needs of FE2 – these are summarised below, with more details provided in Annex B.

Innovate

This sub-ToC focuses on ARC's activities to develop new insurance products and improve existing products. Work done to date has been focused particularly on sovereign products and Replica.

The 'innovate' pathway is largely 'upstream': it focuses on the development of products and other outputs, which then feed into the 'grow' and 'strengthen' pathways. Hence this sub-ToC does not have its own intermediary outcomes but contributes to the intermediary outcomes for the other pathways.

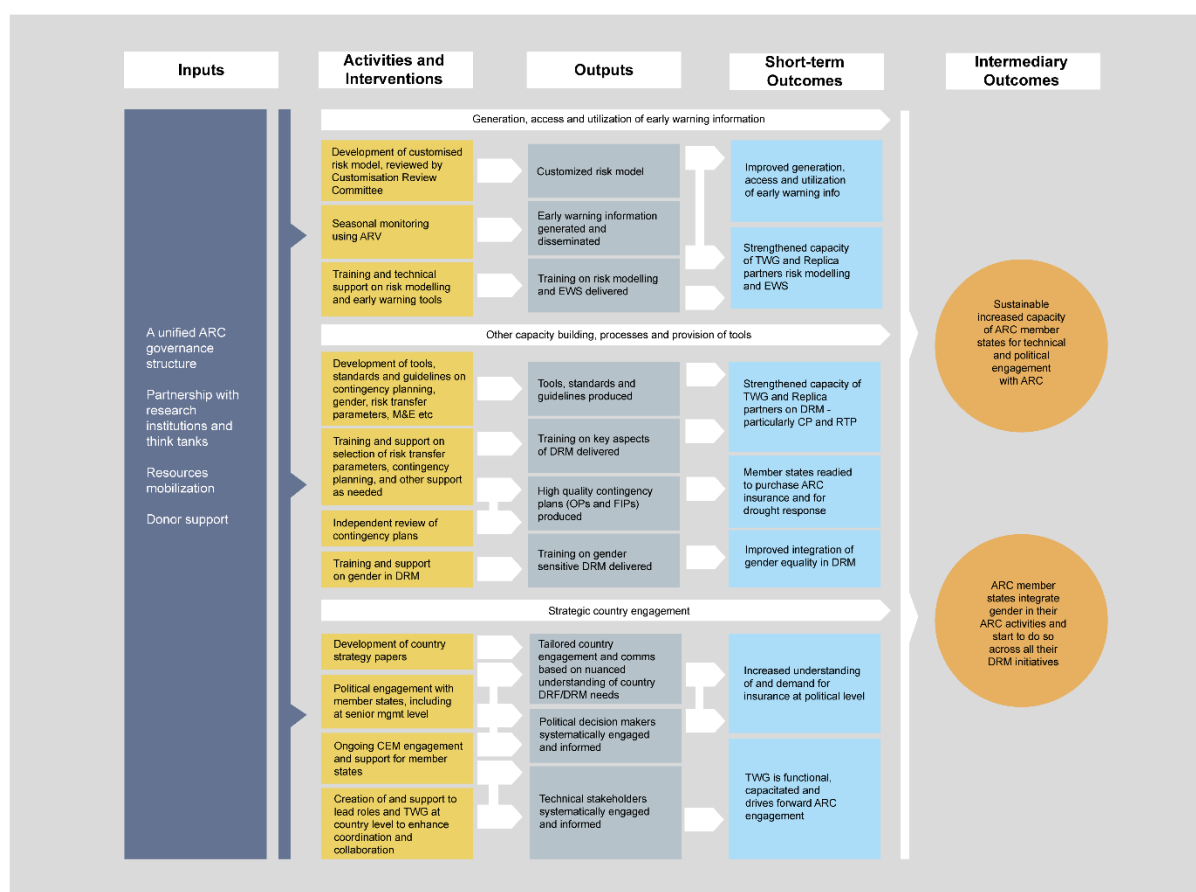
Figure 5: Diagrammatic sub-ToC for 'innovate'



Strengthen

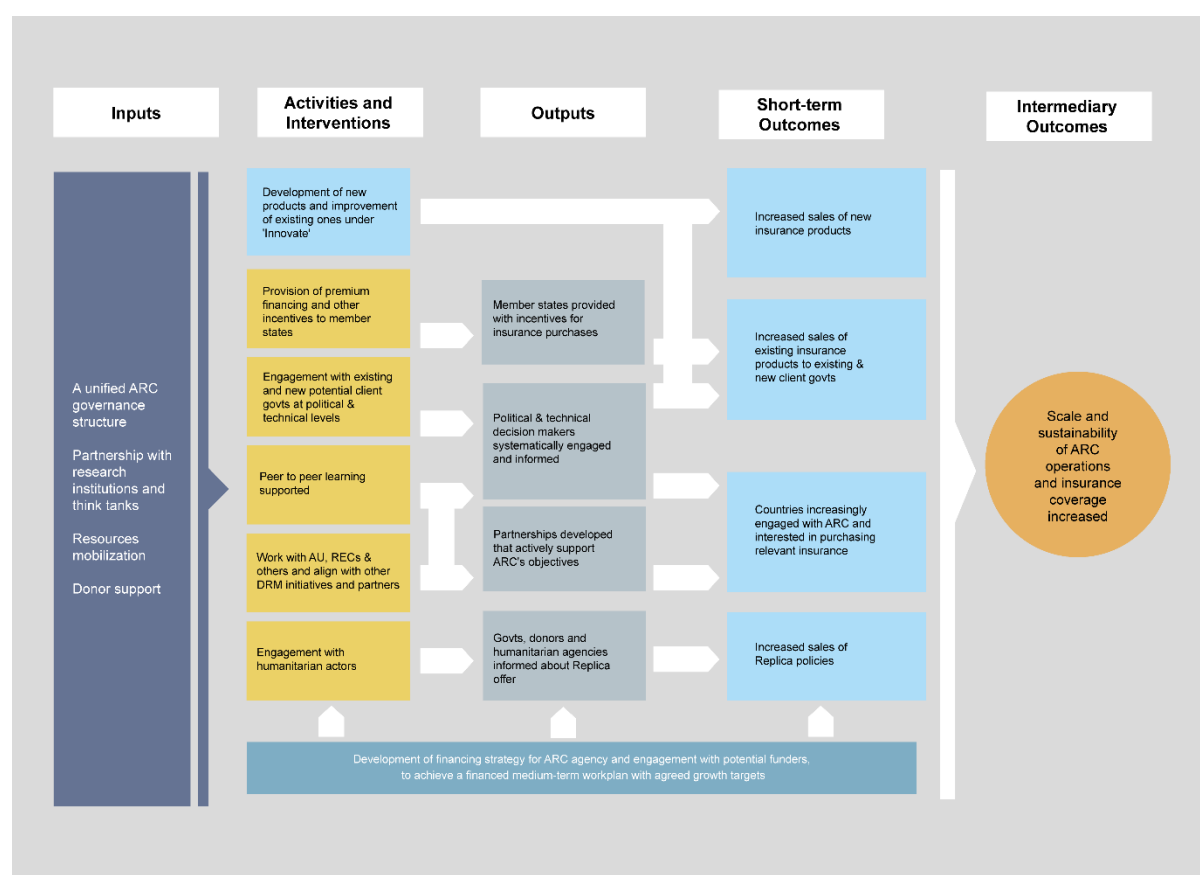
This sub-ToC focuses on ARC's country-level engagement to support the customisation and use of ARV, develop other drought planning and response capacity, and build political and technical understanding of and support for ARC products and services. The intermediary outcomes focus on the sustainability of this increased political and technical capacity, and specific capacity built on gender – both in relation to ARC and DRM more broadly.

Figure 6: Diagrammatic sub-ToC for 'strengthen'



Grow

This sub-ToC focuses on ARC's activities to increase interest in and demand for its services and sovereign insurance products. The intermediary outcome is an increase in the scale and sustainability of ARC's operations and sales of insurance within and beyond its current client base. New products and improvements to existing products feed into this results chain as outputs from the 'innovate' pathway.

Figure 7: Diagrammatic sub-ToC for ‘grow’

2.3 Operating environment for ARC

The operating environment for ARC has continued to evolve since ARC launched its first policy in 2014. Annex A provides more details about this environment.

From an **economic perspective**, the outlook for Africa as a whole was positive (with obvious provisos for heterogeneity across the continent) before the Covid-19 pandemic, but 2020 saw the worst recession in more than 50 years, with GDP shrinking by 2.1% (AfDB, 2021). In such a tight fiscal situation, government expenditure has been focused on economic stimulus packages and health, public debt levels are rising, and slow vaccination rates are limiting economic recovery. In such an environment, we would have expected to see a gradual growth in ARC policies up until 2020 and then a reduction. However, premium subsidies were provided by donors in 2019 which means that it is difficult to understand how these macro-economic factors affect demand (see Section 5 for the evaluation's findings on demand).

Overall, the same challenges that plagued **international support for drought** in 2014 remain – despite the early warning, international funding to mitigate and respond to the impacts of drought continues to be slow (Crossley *et al.*, 2021). There are attempts by the international community to address this – including forecast-based financing and shock-responsive programmes – but these remain limited in scale (see, for example, Obrecht, 2019).

This is concerning, considering that the frequency and intensity of **disasters relating to natural hazards** are already high and are increasing: more than a third of the world's droughts and about a fifth of the world's floods took place in the region during the past decade (World Bank, 2021). This trend is driven primarily by climate change, population growth, and urbanisation. Of all of the people who were affected by hazards in Africa from 2000 to 2019, most were affected by drought (80%), floods (16%), and storms (4%) (ReliefWeb, 2019), with wide variation across the continent. Disasters are affecting tens of millions of people every year (see, for example, United Nations (2020)). Governments are responding to these threats, but the rate of infrastructure development, regulatory structures, and risk management capacity has not kept pace, and nor has investment: only 1% of the national budget of 16 African countries is directly dedicated to disaster risk reduction (DRR) interventions (United Nations Office for Disaster Risk Reduction (UNDRR), 2020).

The DRF landscape has evolved significantly in the last 10 years. **Globally, interest in and funding for DRF** have been stimulated and strengthened via the loss and damage debate within the United Nations Framework Convention on Climate Change (UNFCCC) process, and through the creation of the partnerships, initiatives, and funding sources to support it, such as the InsuResilience Global Partnership, the InsuResilience Solutions Fund, and the Insurance Development Forum, all of which seek to support and enable development insurance initiatives.

Understanding of, and engagement by, both policymakers and technical staff in **Africa on DRF** has grown substantially since 2014, albeit from a very low base. This has been driven primarily by the work of ARC and the World Bank, and more recently by ADRIFi. DRF is integrated into many World Bank interventions, and specific DRF programmes from the World Bank include the 2015–20 Africa Disaster Risk Financing (ADRF) programme, the Global Risk Financing Facility (GRiF), and the Next Generation Drought Index (see Box 5 for more detail). These programmes have supported African governments to understand their disaster risk, to devise DRF strategies to address this, and to introduce new measures – such as disaster insurance and credit – to address it. The trend is clear, but numbers remain low – there are only a handful of countries with finalised DRF strategies – and DRF is not yet institutionalised in most countries.

3 Evaluation approach

3.1 Objectives, scope, and audience

3.1.1 Objectives

The **objectives** of FE2 were revised after the development of the overall evaluation (2015), in order to respond to the needs of a wide stakeholder group, as well as changes in ARC and its context. The revised objective for FE2 is as follows:

To assess the extent to which ARC is cost-effectively contributing to disaster response and DRM¹⁶ capacity development in member states, growing demand for its services and products, and developing a basis for long-term sustainability.

New evaluation questions were agreed that reflected the revised objectives and stakeholder priorities. This means that FE2 has sometimes deviated from the objectives in the original terms of reference, and from the objectives and scope anticipated for it in the inception report.

Following initial agreement of the overall evaluation questions, the evaluation team undertook a ‘design deepening’ process. This developed a more detailed approach to addressing the evaluation questions, including revising and developing detailed sub-questions and reviewing the ToC. The outcome of this process was the ‘detailed design’ report (OPM, 2021b). Since that document presents the agreed evaluation questions and the intended approach to addressing them for FE2, it supersedes the original (10-year) terms of reference. There have been no major deviations from that design, although some changes to the details of evaluation sub-questions are noted below.

3.1.2 Scope

The **scope** of FE2 was agreed with the input of donors and ARC. It was circumscribed as follows:

- Household-level impact was not a focus for FE2 but can be considered in the later impact evaluations.
- ARC Group’s newer products and those under development or being piloted (including insurance for tropical cyclones, O&E, and extreme climate events) were considered with regard to sustainability and demand for services, but the evaluation did not consider any related capacity development work, or the VfM of the research and development and piloting activities associated with them.
- ARC Replica was considered in so far as it contributes to the development of country capacity and provides a possible source of additional demand for the future. It was

¹⁶ Please note that where this document refers to DRM, this normally applies to DRM as supported by ARC – this includes ARV risk modelling and early warning systems, contingency planning, and risk transfer via insurance.

not separately evaluated as a standalone activity and is not included in the VfM study.

3.1.3 Audience

There are three primary target audiences for the ARC evaluation findings: core evaluation stakeholders, ARC stakeholders, and the wider DRF and risk management community. Each of these audience groups has different uses for the evaluation findings and will be reached through different approaches.

The inception report of the overall evaluation developed a comprehensive stakeholder engagement and communication plan, which was updated for FE2 (see OPM (2021b)). The main audience groups and members for FE2 are summarised in Table 4 below. The focus during the evaluation design, analysis, and report production was on consultation and discussion with the core evaluation stakeholders, as represented by the ESG, as well as ARC's management representatives and evaluation counterparts and donors financing the evaluation.

The draft report (in English and French) will be discussed with the ESG, representing core stakeholders. This will provide an opportunity to comment and reflect on the methods, findings, and conclusions identified by the evaluation team. As core evaluation stakeholders, this group will be most able to reflect on and respond to the evaluation findings. ARC will provide a management response to the final report and will, in consultation with the ARC Board and other key stakeholders, be responsible for responding to findings and recommendations. Since OPM will undertake further evaluations under a contract that runs until 2024, there will be sufficient opportunity to assess the extent to which the FE2 findings are used by the main stakeholders.

Table 4: Target audiences

Audience group	Members
Core evaluation stakeholders	ARC Group (ARC Agency and ARC Ltd) management and Board
	ARC donors, including FCDO
	Member countries
	AU, AfDB, other members of the ESG
ARC stakeholders	African policymakers and government technicians who are directly involved with ARC and DRM
	Key ARC partners – such as WFP, Start Network, organisations carrying out process evaluations, AU, AfDB
	The non-governmental environment which interacts in African countries with governments and ARC around DRM/DRF issues
	Beneficiaries (or potential beneficiaries) of the policies (i.e. citizens)
Wider DRF and risk management community	Donors, international finance institutions, practitioners, policymakers, and academics working on regional risk pools, and across related fields, such as DRM, humanitarian response, social protection, and M&E stakeholders outside Africa

The final report will be shared and disseminated to a wider range of stakeholders through a range of approaches. An accessible summary policy brief in English and French will be developed for wider dissemination. The main report and brief will be uploaded to the OPM website and publicised through blogs, email, and social media. Links will be made to other relevant websites and listservs. If requested, the evaluation team will present the evaluation's findings to the ARC Conference of Parties, as a key channel for reaching member states. The team will also look for opportunities to share findings and lessons at relevant conferences and donor events, particularly the 2022 InsuResilience conference, where all of the major stakeholder groups are expected to be represented.

3.2 Study approach and methodology

FE2 took a broadly theory-based approach, in line with the overall evaluation design set out in the inception report, based around the sub-ToCs outlined above (OPM, 2017a). In practice, an iterative process was followed to develop the sub-ToCs, with ongoing work during the evaluation to refine them. The ToC was used as an integrating framework, but evaluation questions were not defined separately for the ToC itself.

FE2 contributes to the evidence base about ARC's contribution to its desired results, as outlined in the initial overall evaluation design document. However, since it was a formative evaluation and stakeholders have prioritised addressing a wide range of questions, it did not undertake the full process of iterative hypothesis testing outlined by Mayne as constituting a formal contribution analysis (Mayne, 2008).

The evaluation team used a mixed method approach to collect data and identify evidence triangulated from a variety of sources to address the evaluation questions and test defined sub-components of ARC's ToC. Evidence sources included document analysis and structured and semi-structured interviews, making use of qualitative and quantitative analysis as appropriate. Quantitative and qualitative inquiry bring different assumptions and worldviews into methods of inquiry and the combination strengthens the process.

In addition to document review, the main data collection approach involved semi-structured key informant interviews (KIIs) and in-depth interviews. These combined some structured data collection with some more open questions that allowed for in-depth and nuanced information to be shared and explored.

The VfM analysis developed a separate ToVC and undertook a formative VfM assessment following the approach outlined in Section 0. A cost–benefit analysis (CBA) is being undertaken separately, with information sharing between the teams.

The work was organised into five workstreams, each with a workstream lead. The team undertook multiple internal meetings to present findings for comment and challenge, and to discuss the conclusions and recommendations that arose.

3.2.1 Main key informant and survey respondent groups

The following *types* of respondents constitute the core sources of information for FE2.

- **ARC Group:** We interviewed key individuals from ARC Agency and ARC Ltd, as well as the GDG. This provided clear and recent data on the organisation's structure, governance, and operations.
- **ARC member countries:** We sought to understand the perspectives of country governments towards ARC and their experiences with ARC and its offers. The countries were divided into three categories: current policy holders; member states with an MoU but without a policy; and member states without an MoU. The first two groups were the primary focus of the evaluation. They can be further divided into whether they have ever received payouts or not. The respondents were ARC counterparts, particularly members of the TWGs.
- **ARC donors:** ARC donors finance ARC's work and engage on strategy- and objective-setting.
- **ARC implementing and key strategic partners:** ARC implementing partners – the Start Network and WFP – help operationalise ARC and its policy holding countries and their responses to disasters. They therefore have a practical view on how ARC operates. Key current strategic partners include AfDB, AU, and sub-regional organisations who support and promote ARC.
- **Global DRF actors:** Global DRF actors help contextualise ARC within the wider DRF landscape.

3.2.2 Samples and data collection

Two workstreams made use of country-level samples. In addressing EQ1 (capacity development) we made use of a sample of four countries that currently hold policies (Côte d'Ivoire, Mauritania, Zambia, and Zimbabwe), two of which have had recent payouts (Zimbabwe and Côte d'Ivoire). In addressing EQ3 (demand) we supplemented information from the EQ1 sample with five additional countries that have an MoU but that did not purchase insurance in the last three years: Burkina Faso, Djibouti, Lesotho, Mozambique, and Somalia.

The main respondent groups for the KIs are given in Table 5 below. The evaluation matrix and sample design identified which respondent groups would provide information to inform each question (see Annex C). Since most respondents provided information relevant to a number of questions, data requirements were integrated into single instrument for use with each specific group of respondents or, where relevant, specific individuals.

Out of an intended sample of 66, a total of 64 individuals were interviewed. The roles of individuals interviewed are given in Annex G. This was 97% of the originally total intended number, although in some cases additional individuals were interviewed in particular groups. The main challenge was arranging interviews with respondents from countries without current policies: multiple countries were contacted multiple times in order to obtain interviews. The original sample was Benin, Mozambique, Ghana, Nigeria, and Uganda; those actually interviewed were from Burkina Faso, Mozambique, Somalia, Djibouti, and Lesotho. We were also unable to arrange interviews with some senior members of the Board, who were relatively new in their posts.

The other key issue concerned interviews with TWG members in countries with policies; the aim was to interview up to five individuals each – the Programme Supervisor, Government

Coordinator, and technical leads for risk modelling, contingency planning, and RTP. This was not possible because – after many attempts – some country staff were not available. In some cases, one individual held two roles.

Table 5: KIs: intended and actual sample

Organisation	Respondent group/ sub-group	Intended respondents	Number interviewed
ARC			
ARC Agency	ARC Agency staff plus Office of the GDG	16	16
ARC Ltd	ARC Ltd staff	3	5
Board	Senior Board members	2	0
Countries			
Government respondents	Current policy holders (Côte d'Ivoire, Mauritania, Zambia, Zimbabwe)	20	13
	Members with MoU but no current policy (Burkina Faso, Djibouti, Lesotho, Mozambique, Somalia)	5	5
Other respondents			
Regional actors		6	5
Global DRF actors		4	7
Donors		8	6
Implementing partners		2	5
Technical Review Committee (TRC)		0	1
Total respondents		66	64

Interview guidelines were developed for all respondent groups, providing for semi-structured interviews. Initial guidelines were developed and tested in the first interviews and then revised on the basis of that experience. Different guidelines were used for different respondent groups. Interviews were conducted remotely using Microsoft Teams or similar applications, normally with two evaluation team members present, with one acting as note taker. Workstream leads led most of the interviews. Interviews were conducted in English, French, or Portuguese by native/fluent speakers and interview notes were translated into English where necessary. Interview notes were entered and coded in NVivo and then exported as a multi-respondent, thematically organised qualitative data matrix for analysis by the workstream leads.

A more structured 'perceptions survey' was also undertaken. This was a light-touch tool that was predominantly closed-ended and aimed to assess respondents' perceptions of ARC and its value. This survey included some questions derived from the FE1 perceptions survey, though it was not limited to them. This tool was administered via an online self-administered survey (Microsoft Forms). The respondents are detailed in Table 6. Surveys were sent in English or French as appropriate.

A total of 26 individuals were contacted in the survey (one per country) and 16 responses were received (two from one country), which can be considered a response rate of 62%. No responses were received from member countries that do not have an MoU. The data were

analysed using simple frequency distributions. More details on the survey are given in Annex E.

Table 6: Online survey: potential and actual numbers of respondents

	Current and previous policy holders	Members with MoU, never had a policy	Members without MoU	Total
Total number contacted	14	7	5	26
Number of responses received	13	3	0	16

3.3 Evaluation principles

The evaluation team ensured the evaluation adhered to benchmark standards of quality and ethics.

For quality standards, we followed the OECD's Quality Standards for Development Evaluation, which are 'intended to improve the quality of evaluation processes and products and to facilitate collaboration'. The Standards have been established through international consensus and outline the key quality dimensions of each phase of a typical evaluation process (OECD, 2010). The evaluation design document was reviewed and approved by the FCDO Evaluation Quality Assurance and Learning Service (EQuALS). This final report will be put through a similar review.

The evaluation complied with ethical standards and adhered to accepted principles of rigour and quality. We followed the principles outlined in the American Evaluation Association's *Guiding Principles for Evaluators*, which include systematic inquiry, competence, integrity, respect for people, and the common good and equity (American Journal of Evaluation, 2021). We also sought to respond to the five key evaluation principles articulated by the African Evaluation Association – tailored by and for African contexts, needs, and knowledge systems, yet informed by international good practice insights, theories, and practices (African Evaluation Association, 2020).

In implementing these principles, we ensured that they were reflected throughout the evaluation process, including in the tools and question framing, in implementation, and throughout the analysis and presentation of the evaluation's findings.

The evaluation team drew on its experience of conducting qualitative and quantitative fieldwork to ensure these principles and ethical standards were met. All interviewees were acting in their professional roles and no interviews were undertaken with final beneficiaries or any vulnerable groups. As a result, no specific ethical clearance was required.¹⁷ The purpose of the data collection was explained and informed consent was obtained. The anonymity and confidentiality of respondents was respected and quotes have been

¹⁷ Where interviews are conducted only with employees providing information in the course of their work, a study is normally exempted from review by OPM's ethical review committee.

anonymised. The principle of 'do no harm' was followed and the safety of all participants was ensured throughout the evaluation process, in line with OPM standard practice. Neither the data collection process, nor any of the data collected or reported, were assessed as presenting any risk to respondents. All data are held securely by OPM. Since named respondents acting in their professional roles were selected for interview and contacted directly, the use of an online survey was not expected to create problems of representativity or any inequity of access.

Interviewees would in general be expected to see the outputs of the evaluation as a result of their roles and the team will ensure that the summary products are shared with them directly.

Gender and equity were a cross-cutting consideration during FE2, reflecting ARC's own strategy and action plan, both in the framing of evaluation questions and in the approach to addressing them. In addition, the importance of different contexts and characteristics of individual member states was considered as a dimension of the evaluation, including in selecting sample countries.

Evaluation team members had no involvement in the design or implementation of ARC work and no potential conflicts of interest were identified. The team was able to work independently and without hinderance.

3.4 Evaluation governance

During the initial design stage, FCDO, ARC, and a core group of donors agreed that the OPM evaluations should provide a joint, unique, and coherent set of evaluations, reflecting both donors' and the ARC Group's priorities. This avoids the potential duplication and inefficiencies that would arise if other donor evaluations were to be undertaken separately.

This work is being steered by a newly revived ESG, which includes a diverse range of stakeholders who are collectively able to take a view that is independent of ARC, as well as representatives of ARC. The membership of ESG includes representatives from ARC (Agency and Ltd), donors, member states, the AU and AfDB, and an independent expert. The remit of the ESG is to support the relevance and quality of the key evaluation products – both the terms of reference for evaluation phases and evaluation reports – and to support the implementation of the evaluation, including engaging in deliberation on its operationalisation.

For FE2, the ESG met to review a draft design note and agree priority evaluation questions. The group was also requested to comment on the full design document, with final sign-off on the note by the ESG Chair. The ESG also provided extensive and thoughtful comments both verbally and in writing on the draft evaluation report, which were carefully considered by OPM.

OPM is responsible for delivering the evaluation and reports contractually to FCDO. All major evaluation products will also be reviewed by EQuALS, FCDO's evaluation quality assurance service.

3.5 Evidence quality and limitations

The quality of evidence was generally reasonably high. KIIs were guided by systematically developed interview guidelines, and the participation of two evaluation team members meant that the lead interviewer could focus on establishing a rapport and on ensuring the quality and fluidity of the interviews, probing where appropriate. In general, respondents were felt to be reasonably open and honest in their responses.

There was less scope to assess the quality of responses to the online survey, although questions were simple and short and within the competence of the invited respondents. Free text responses suggest understanding and engagement were good.

Sample completeness was generally high for the KIIs, aided in most cases by direct relationships between ARC and the respondents, and active support from ARC in encouraging engagement. The least responsive group was non-policy holding countries, where multiple approaches to widening the sample and to obtaining responses were required.

Sample response was lower for the online survey, despite extensive follow-up. This is expected and the overall response rate was acceptable for this type of survey. No responses were received from countries without an MoU, meaning the least engaged countries were unfortunately not represented.

The evaluation findings were triangulated between different sources, and no general patterns of discrepancy were identified. Any discrepancies identified around particular questions or topics is noted at the relevant point in the report.

Key limitations for this evaluation were as follows:

- For most countries, the Covid-19 pandemic has been a dominating concern since early 2020. This resulted in multiple challenges, which will have affected the operations of ARC and its member states. This context must be taken into account when considering the findings.
- Given the nature of the evaluation questions, a key source of information was interviews with key informants who had some form of connection with ARC, and so may have had specific interests in mind. Triangulation was used to address this and it was felt that in general interviewees were frank and open.
- Semi-structured interviews were the main data collection approach, as was appropriate to the nature of the information being collected. This necessarily limited the total number of interviews that could be undertaken, while increasing their richness. It would have been ideal to have a larger sample of countries, but this was not possible given time and budget constraints, as well as the challenges of contacting and agreeing interviews with the sampled individuals. The samples were specified to try to capture the most important variations to try to mitigate this.
- The online survey also provided information from a larger group of countries to balance this, although this could not provide information with the same depth and richness. The sample who responded to this survey was also small, in part inevitably because it was a survey of countries. However, the information provided was a useful input to the

evaluation and provided an additional source of triangulation for the semi-structured interviews.

- As identified above, groups that were under-represented in the interview data, relative to the initial intentions, included the following: member countries that do not have an MoU (online survey; no responses received); member countries with an MoU but without a policy (where multiple countries had to be contacted in order to interview five); national TWG members with specific technical responsibilities (i.e. other than Programme Supervisors and Government Coordinators), when in some cases only a couple of individuals in a given specialist role were interviewed; and ARC Board members.
- In addition, the interview guidelines covered a large number of topics. In some cases interviewers did not have time to ask about all of them and had to exercise judgement regarding which to pursue.
- Data collection was undertaken remotely given the persistence of the global Covid-19 pandemic. Although the evaluation team has extensive experience with implementing remote data collection, this may have affected the rapport built with respondents. On the other hand, it also allowed for a lower cost per interview and greater consistency in the interviews undertaken.
- ARC supplied documents as requested, including confidential internal documents. In some cases, documentation and data were not available. This included a lack of detailed information on actual expenditure by programme area. This is understood to be due to a lack of detail recorded by WFP systems.
- This was a formative evaluation and no attempt was made to undertake a formal contribution analysis. While interviews and analysis sought to identify the role of ARC, while placing it in its wider context, there are limitations to how far the contributions of other actors can be separately identified in some areas. Since most of the focus of FE2 was on the activities being undertaken by ARC itself, this was not felt to be a major limitation.

4 Findings: capacity development

4.1 EQ1: To what extent – and how – is ARC contributing to building systemic DRM capacity in member states to anticipate, plan, finance, and respond to climate-related disasters?

Overall finding: ARC has built the capacity of 17 member states in relation to drought on risk modelling, contingency planning, and understanding insurance products. More and stronger contingency plans are in place, but this has often not translated into a timely response. The capacity built does not appear in general to be sustainable and ARC lacks a clear country graduation model. Capacity development in gender and M&E has been quite limited. ARC is not building holistic DRM strategies and is probably not well placed to do so. ARC is seeking to reduce the costs of capacity building, which are substantial and viewed by funders as unsustainable.

The evaluation has used KIs and a document review to understand the extent to which individual, organisational, and system capacity has improved, and the role that ARC has played in those changes. The main informants for EQ1 were government respondents from four member states which have been the recipients of ARC's capacity building, as well as selected ARC counterparts. Some of the information collected from key informants at the regional and global levels has also informed and helped to triangulate these data. As noted previously, the evaluation has focused primarily on drought, and hence this evaluation question concerns capacity building for anticipation, planning, financing, and response to drought.

The challenge of capacity building for ARC should not be underestimated, and was highlighted as early as the 2011 ARC feasibility study (World Bank, 2011), which stated: 'Capacity building will be central to this initiative since the technical components are complex, the financial approaches are new, and since member countries will need to have a solid understanding of the approach in order to make informed decisions, not only about individual participation but also about how the region as a whole wants to manage the facility. Experiences in Ethiopia and Malawi, which have implemented some of the approaches proposed in the ARC, has demonstrated that capacity building is a time-consuming, resource-intensive activity that requires permanent, focused attention.'

As such, capacity building – particularly on ARC's core areas of risk modelling, contingency planning, and RTP – is a critical part of ARC's offering and is captured primarily through ARC's second strategic objective: to strengthen DRM on the continent.¹⁸ The strategy identifies improving capacity building as a high-priority action for all five years. Country engagement is led by ARC Agency, and Agency also provides capacity building and training

¹⁸ Capacity building is defined in the strategy as 'A process by which governments obtain, improve and retain skills, knowledge, tools and other resources required to manage a disaster situation'.

on risk modelling and contingency planning, but ARC Ltd provides training and support on RTPs.

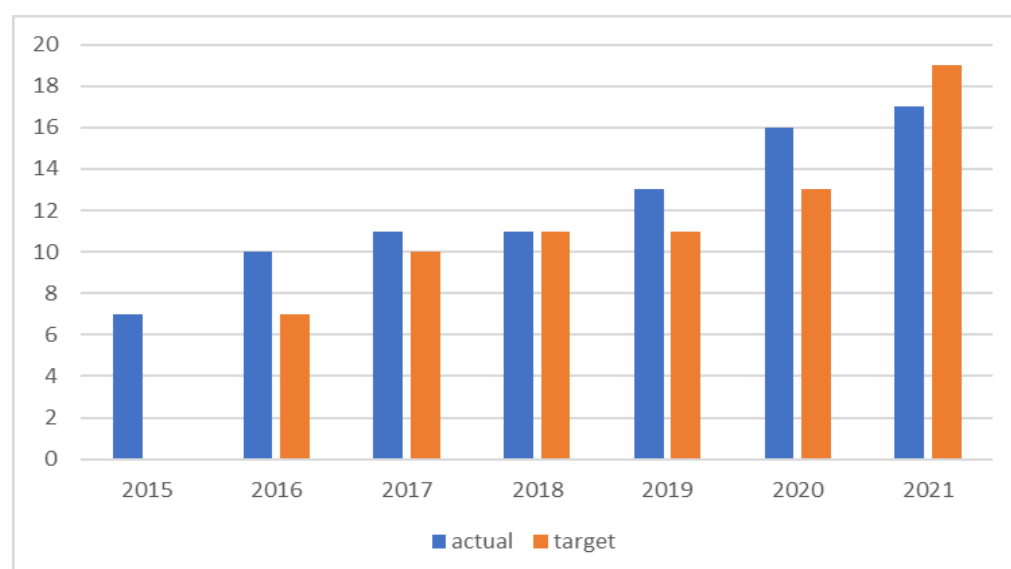
EQ1.1 To what extent has ARC built the capacity of member states to plan, prepare for, and respond to insured risks?

Summary of findings

By 2021, ARC had succeeded in building the capacity of 17 member states – as measured by having a valid Certificate of Good Standing.¹⁹ This means that the TWG will have been constituted, its members will have completed the capacity building programme, ARV will be customised, and the TWG will have submitted an OP that is in line with ARC’s standards and which has been recommended for approval by the TRC and Peer Review Mechanism.

The number of countries with a valid Certificate of Good Standing has been steadily increasing, from seven in 2015 to 17 in 2021. This steady growth is positive and has generally been ahead of logframe targets (apart from in 2021, when the target jumped from 13 to 19 – see Figure 8). There is still some way to go in order to achieve ARC’s goal of providing capacity building to all 35 signatory countries and to eventually expand this across the continent (this is the goal as expressed in the 2022 Fundraising Strategy).

Figure 8: The number of ARC member states with a valid Certificate of Good Standing



Source: ARC logframe

While the evaluation is clear that government capacity has been built to enable countries to engage with ARC’s drought product, it was not able to quantify broader benefits. It is likely that building capacity on risk models, contingency planning, and the establishment of TWGs has strengthened disaster response more broadly; we would expect wider benefits to be

¹⁹ A Certificate of Good Standing is a reasonable proxy for capacity, as it requires a country to have an approved operational plan, to have customised ARV parameters, and to be in compliance with operational planning requirements.

achieved. However, the evaluation did not explicitly seek evidence on this (for example, whether OPs are used to support national drought planning and response or whether they are purely used in relation to an ARC payout), and thus we are not able to quantify these broader benefits.

Considering the *outcomes* of ARC's capacity building:²⁰

- 20 countries are using ARC tools in their national **early warning systems**, according to ARC reporting against its KPIs. Our interviews found that information from ARV is used as one input in early warning systems (except where there are problems of trust in the model), adding to information from other established systems which are more focused on food security and thus more useful for planning a response. One example of ARV stimulating an early (mid-season) response was found.
- 17 countries have a valid Certificate of Good Standing, which means that they have an **approved OP**. Our interviews found that ARC's work on contingency planning has strengthened coordination between government departments and with external actors, particularly in ARC Replica countries. The evidence is not strong that OPs have increased in quality over time, and there is no clear correlation between the amount of time that a country has spent working with ARC and the quality of contingency plans.
- In eight cases where ARC made the payout on time, five did not achieve the target of a **response** distribution starting within 120 days. Process evaluations found that common problems – delays due to issues with public financial management systems, targeting, and bureaucracy – slow down responses. Future impact evaluations will consider effectiveness in more detail, but FE2 found that while the support has a positive impact, it is often small, and, if delivered very late, cannot be used to achieve ARC's purpose of early response.

EQ1.1.1 To what extent and how is the drought model being used as an early warning system?

Summary: All countries use information from ARV as an input to early warning systems. It adds to information from other established systems at the national and regional levels, which is more focused on food security and thus more useful for planning a response, and some of which is based on real (not modelled) information and thus is trusted more. One example of ARV stimulating an early (mid-season) response was found.

According to ARC KPIs, from 2016 to 2020, around 10 countries each year 'used ARV to support early seasonal analysis and responses to affected populations'; in 2021, the indicator was changed slightly to become 'using ARC tools in their national EWS' and the number jumped to 20 countries.

Our KIIs found that this latter indicator is indeed more closely related to how countries use ARV. Most TWGs use information from ARV to monitor the season and to provide early

²⁰ Note that Sub-question 1.1.4, which identified constraints on capacity building, has been moved to EQ 1.3, where it fits better, so that EQ 1.1 is focused entirely on outcomes.

warnings. The drought model is not used as a formal alert system to trigger a response but as a source of information that is shared around government departments, such as ministries of agriculture and finance, to provide an indication of what can be expected, and to plan for impacts to the budget. For example, the 2020 Zimbabwe process evaluation found that ‘ARV is used by the government to monitor the season and assess the magnitude of any potential drought... it is considered that the tool was well understood and used appropriately, generating appropriate early warnings.’ Mauritania was an exception, due to concerns around the accuracy of the risk model.

Country respondent: ‘We are managing to do the customisation and understand our risk. ARC has been eye-opening – helped us to plan in advance.’

ARC staff believe that a key value-add of ARC is the modern satellite technology, which supports early warning and forecasting (in comparison to often outdated weather forecasting systems), which then enables countries to monitor how their seasons are progressing in real time, and to identify locations that are most likely to be affected.

ARV information adds to the early warning information provided from other established sources: for example, from ministry of agriculture mid-season and end-of-season crop assessments; coordinated and standardised regional systems for assessing food insecurity (Integrated Phase Classification, Cadre Harmonisé in west Africa, and the Vulnerability Assessment Committees in southern Africa); and in some countries, the real-time monitoring of humanitarian actors/development partners – for example, in Madagascar, there is a food security and vulnerability newsletter from the food security cluster, and a drought warning newsletter from the United Nations Children’s Fund (UNICEF). All of these systems consider vulnerability and food insecurity arising due to a range of causes (such as flooding, pests, conflict, and displacement), and are arguably more useful for response than ARV, which considers drought in the current season (and does not capture the cumulative impacts on livelihoods of several consecutive years of poor rain/chronic drought).

There are links between ARC and these processes – for example, in Zimbabwe, some of the members of the TWG sit on the Zimbabwe Vulnerability Assessment Committee (ZimVAC) – but these remain separate parallel processes. The VAC process involves community monitoring, directly assessing the numbers of people in need of support; according to one respondent, it is therefore trusted more than ARV. The Cadre Harmonisé and VAC processes are the source of targeting information, and ARC-funded distributions cannot happen until this occurs.

Country respondent: ‘The ARV is just used as an early warning to give us an indication of what might happen, but it is the VAC process that creates a response from the government. ARV really acts as a flag, but it doesn’t lead to action directly. The VAC process supersedes everything.’

We found one example where ARV was used to trigger early action, i.e. a response before the end of the season. This occurred in Senegal in 2019: when the sowing window was deemed to be failing, the government used its own funding to distribute seeds of short maturing varieties in order to try and get a harvest in that season and thus mitigate the impact of the drought. ARC’s crop drought policies can only provide a payout at the end of the season, but the rangeland model could potentially be developed so as to allow payouts

mid-season, and thus could play a key role in early action. There is certainly scope to explore the further use of ARV to trigger early actions, working with interested governments and other development partners.

EQ1.1.2 Are countries developing high-quality contingency plans?

Summary: *There are now more drought contingency plans on the continent due to ARC, and reportedly some have supported government response even without an ARC payout. The quality of plans has increased since ARC's involvement, due to strengthened coordination between government departments and with external actors, particularly in ARC Replica countries, but there is scope to improve further. The evidence is not strong that OPs have increased in quality over several years of ARC engagement, and the pressure to approve OPs could be unhelpful in this regard.*

Existence of plans: There has been an increase in the number of contingency plans for drought across the continent, which is directly attributable to ARC. While most countries had some national disaster contingency planning pre-ARC, this may have been multi-hazard and therefore fairly general, or it may not have included drought at all, such as in Côte d'Ivoire, Togo, Ghana, and Guinea. ARC Agency staff recount that in countries such as Mali and Burkina Faso, ARC OPs have been used to guide responses even where countries have not taken a policy. They also believe that while contingency planning is not a new concept, in some countries the process of developing an OP for ARC has shifted the balance of power between governments and humanitarian actors, enabling governments to direct and lead.

Coordinating across government: The TWG is interdisciplinary; membership varies per country but will usually involve ministries/departments of agriculture, animal resources, finance, environment, social welfare, gender, meteorology, etc. Some countries already had strong coordination mechanisms in place before ARC was involved – for example, in Malawi, the Humanitarian Response Technical Committee includes representatives from all departments. But elsewhere the establishment of the TWG has strengthened government coordination between relevant departments, breaking down silos, clarifying their roles and responsibilities, and providing a clear framework for collaboration, which can support the speed of their responses. This is particularly the case for countries where drought is not their primary natural hazard (such as Côte d'Ivoire).

Country respondent: 'If there's one area in which ARC has been really positive, it's in bringing actors around the same table to tackle a problem, through the TWG.'

Coordinating with external actors: Respondents were clear that ARC has helped to bring government and non-government actors together. Even in cases where such coordination existed before, it has now become stronger, and it has reduced gaps and duplication of effort. The only exception is Côte d'Ivoire, where humanitarian actors have not been active on drought. ARC encourages the inclusion of civil society in the TWG to represent beneficiaries (members have included Transparency International, World Vision, and Oxfam), with the level of engagement varying from country to country.

This coordination is, unsurprisingly, particularly strong in countries with an ARC Replica programme. While the government is the lead, the Replica programme directly enables strong coordination, clear and transparent roles for each stakeholder, coordination around

targeting, and harmonisation of interventions – for example, ensuring that cash transfers are for the same amount, thus avoiding confusion and discontent on the part of beneficiaries.

Quality: The TRC provides an independent check on quality, reviewing and scoring each OP and FIP. Of the nine countries that had their OPs reviewed by the TRC twice in the last four years, eight of them had a lower score in the later review, suggesting fairly clearly that quality has not increased. This may not capture the whole story: there is a perception from some respondents that the number of TRC issues that *must* be addressed (as opposed to those that would be ‘nice to have’) has decreased, but this is not possible to objectively verify.

And a comment from the TRC report of April 2020 (which reviewed the OPs from Ghana, Mauritania, Mali, and Senegal) is particularly pertinent in relation to quality. It notes that ‘The persistence of same or similar weaknesses already pointed out by the TRC in previous review/pools is indicative of limited commitment to the recommendations/comments from the TRC by countries. This points to something amiss in the process and is a lost opportunity to improve on the quality of the OPs.’

It should also be noted that while the TRC is independent, it does not have the time or mandate to explore the practical application of the OPs, and hence includes the following disclaimer in its reports: ‘Recognising that the TRC is a desk/theory-based assessment by experts which is not mandated to guarantee the actual functioning of each national system...’ An interesting comparison is the KfW-commissioned quality assurance reviews of five OPs carried out by the Centre for Disaster Protection in late 2020. These were significantly more detailed reviews, and provided more challenging feedback, outlining several priority areas to be addressed. The feedback often took the form of quite searching questions as to how the interventions would be delivered in practice, identifying gaps in the justification and detail, to ensure an effective response. They were also consistent in promoting cash over food responses.

Potentially misaligned incentives: Taking an insurance policy is contingent on the approval of the OP, so there is considerable pressure on all parties (country staff, ARC staff, and TRC members) for the OP to be approved. There is pressure on the TRC to find redeeming qualities in all OPs and while the OPs are owned by the country, there can be a certain amount of ‘speaking to the script’ by the country – responding to TRC queries in a way that the TRC will find acceptable and convincing – and, if a country is struggling, ARC staff step in in order to get the OP over the line. This situation is amplified when a donor is willing to offer premium finance to a country, and capacity building can thus be foreshortened.

As one example, in 2021, the TRC put the Sudan OP in the ‘provisional approval’ category. The Peer Review Mechanism report states that ‘the country team would need to update the OP with the missing data. The updated OP would then be circulated by email for final approval’. The Sudan OP was not reviewed again by the TRC but Sudan did in fact take a policy; it is not clear how this happened. It is expected that the existence of premium subsidies may have had some influence on this outcome. In terms of FIPs, understandably there is pressure on the TRC to approve these, and hence the approval process is not a

rigorous review, and issues which perhaps should be viewed as critical do not prevent approval.²¹

ARC's role in capacity building: While it is clear that ARC's engagement is helping to strengthen contingency planning, there is not a neat correlation between the amount of time that a country has spent working with ARC and the quality of the contingency plans. For example, Zambia is a recent joiner but received a high score for its OP; and while Burkina Faso, Malawi, Côte d'Ivoire, the Gambia, and Niger all signed their MoUs in 2016, the first two received significantly higher scores for their OP.²² Quality may be better correlated to existing government experience of managing drought-related emergencies and support from other development partners, such as WFP. Over time, this is expected to level out.

EQ1.1.3 Where there was a payout, did it lead to an effective timely response?

Summary: *In eight cases where ARC made the payout on time, five did not achieve the target of a response distribution starting within 120 days. Delays are often due to common problems – such as public financial management systems, targeting, and bureaucracy – which contingency planning should be addressing. While Covid-19 has undoubtedly resulted in delays in disbursement, Replica partners have been much more successful in achieving a timely response. Future impact evaluations will consider effectiveness in more detail, but FE2 found that while the support has a positive impact, it is often small, delivered late, and hence not used as intended by ARC's core value proposition, and we have little information about its VfM compared to alternatives.*

The timeliness of the response depends on both ARC's actions and those of the government. On the ARC side, there is a KPI of 30 days for the number of days between the payout trigger and the payout being made to recipient governments. Unless there is basis risk, this KPI is almost always achieved. It should be noted that ARC's target is less ambitious than others' – the InsuResilience benchmark for macro schemes is 10 days (InsuResilience, 2021) and the CCRIF and PCRIC payout target is 14 days (and CCRIF's actual payouts are often quicker than this in practice). Considering ARC's first 10 payouts, two were subject to basis risk and were not paid within the 30 days: Malawi in 2016/7, where distribution happened around one year late, and Mauritania in 2017/8, where the government self-funded in order to ensure a timely response.

On the government side, there are two KPIs: the number of days between the payout being made by ARC and the start of the implementation of the response (the target is 120 days); and the number of days to completion of the implementation of the response (the target is 180 days). There is strong belief from government respondents that an ARC payout will lead to an earlier response, but in fact these KPIs are often not achieved. For the eight payouts

²¹ For example, in the case of a Madagascar drought FIP in 2020, the bank account for receiving the funding was not yet open, despite the lack of such accounts being a critical factor in slowing response speeds. For the 2020 Zimbabwe FIP, a decision had not been made about whether to provide food or cash, which is precisely what the FIP is supposed to do, to enable the operationalisation to begin.

²² Scores were 471 and 477 for Burkina Faso and Malawi, compared to 450, 451, and 459 for Côte d'Ivoire, the Gambia, and Niger, for plans reviewed by the TRC in March 2019.

made on time by ARC up to February 2022, only in three cases did the distribution start within 120 days. In one case this was comfortably achieved – in Mauritania, food distributions traditionally begin in June, at the start of the lean season, whereas the 2015 ARC-financed distribution began two months earlier than the norm and continued for four months. For the Senegal 2014/5 payout, one of the interventions (subsidised livestock feed) began within 120 days, but the rice distribution was later. In Niger 2014/5, the intervention started just within 120 days but was not expected to finish within 180 days.

In the other five cases, the 120-day target was missed, and in two cases – both in Côte d'Ivoire – the distribution started a year after the payout. Clearly this is neither timely nor effective in responding to the drought. In the other three cases, the start of the intervention was typically eight to nine months after the payout was received. This is around the same time as international humanitarian support would be expected to be reaching beneficiaries. Despite missing the 120-day target, the process evaluation for Madagascar in 2020 states that 'the evaluation team does not consider this was in fact detrimental for individual households'.

It should be noted that four of the five payouts that missed the 120-day KPI were made in 2020, during the Covid-19 pandemic, and this affected the speed of response. For example, in Zimbabwe, where implementation started nine months later than planned, the process evaluation states that 'The overarching reason is that the main operating partner, the Ministry of Public Service, Labour and Social Welfare (MoPSLSW), was also tasked by the Government to be the key implementer of the Covid-19 treatment centres around the country, and inevitably this took precedence over the ARC operation at times, resulting in longer delays than expected. Staff were redeployed, unavailable, off-duty with illness, or otherwise busy.' However, there were also three ARC Replica payouts during the pandemic in 2020: two small ones achieved the KPI and the third major one (Start Network in Senegal) was only one month late.

The analysis above considers timeliness against ARC's own KPIs. The 2022 CBA (OPM, 2022) took a different approach, considering the time from the harvest to the first distribution. This was based on the analysis done in the 2012 CBA (Clarke and Vargas-Hill, 2012), which found that ARC only achieved 'speed benefits' if assistance was received within eight months from the harvest – due to the impacts of negative coping mechanisms, and also because this is when conventional assistance typically starts to arrive, so ARC support is no longer additional after this point. The 2022 CBA found that only three of the last 10 payouts were distributed within eight months of the harvest – Mauritania 2014/5, Mauritania Replica 2019/20, and Senegal Replica 2019/20 – so seven of ARC's payouts achieved no speed benefits.

There are a variety of reasons why a response might be delayed, including the following:

- **Issues with government public financial management systems.** The ARC payout arrives in a central account owned by the national treasury, and there are often delays in getting the funds to implementing departments, due to a lack of clear process about how to transfer off-budget funds. For example, in Zimbabwe in 2020 it took four months for funds to be transferred from the Treasury to a new programme account opened by the lead ministry (MoPSLSW). In Senegal it took nine months for the 2014/5 payout, and there were also extended delays in 2019/20 in setting up the special account that was

intended for the exclusive management of ARC funds; ARC funds were received in December 2019, but most Government of Senegal implementing agencies did not receive funding until July or August 2020.

- **Bureaucracy/government processes.** This is an oft-cited cause of delays and ranges from administrative slowness on the part of the relevant government department causing a one- or two-month delay in approval, to delays in procurement. In general, these delays should be relatively predictable.
- **Targeting challenges.** Identifying beneficiaries is not a straightforward process and can be lengthy, as well as open to the challenge of political interference by local-level departments. In Madagascar in 2020 there was an extremely protracted process of identifying beneficiaries and their locations that took six months post-payout and involved *inter alia* a large population census and the preparation of beneficiary lists. Significant delays were caused due to multiple rounds of verification and updates at field level.

ARC contingency planners are aware of these issues, but the current process does not seem to be doing enough to address them.

Effectiveness: The question of whether ARC payouts lead to an effective response will be answered more fully in the future impact evaluations. From a review of the ARC-commissioned process evaluations, it is clear that there is a positive impact: the ARC payout is distributed by governments as cash, food, or other support (such as nutritional services, subsidised livestock feed etc) and, unsurprisingly, this is welcomed by recipients and recognised by the process evaluations as an important contribution to drought response. However, there are other considerations:

- **VfM:** Most process evaluations do not say whether the ARC payouts represented the most effective use of the money, or whether different interventions or distribution modalities could have had a greater impact. There are a couple of exceptions: the Malawi cash transfer was deemed to be not cost-effective due to the presence of multiple layers of implementing agencies, all applying administration charges such that only 30% of the funds reached beneficiaries in some cases. By contrast, the Côte d'Ivoire 2020 evaluation states that the transfer cost ratio (total project cost/total funding transferred) of the programme was 1.27, which placed it in the range of the most efficient programmes (ECHO, 2016).^{23,24}
- There can be an issue with **quantity**. Of the 10 government payouts to date, six were for less than US\$ 4 million. While ARC is clear that payouts are not intended to cover **all** the needs, and the payouts are dependent on the government choice of RTP, these payouts are small, particularly in relation to the effort by both ARC Agency and governments to secure them. And this can affect outcomes: the Zimbabwe 2020 process evaluation states that 'although the assistance was welcome and helpful, the amount received, and the number of times it was paid, was insufficient to make any significant difference to households' situation, particularly for the larger families'. Nonetheless, it went on: '[the] evaluation team considers that it was "a useful input" to the larger household budgets'.

²⁴ When compared to benchmarked ECHO-funded projects.

- If the support is subject to major time delays, it **cannot be used as intended** by ARC, i.e. to protect lives and livelihoods. The Côte d'Ivoire 2020 evaluation states: 'Despite high satisfaction with the transfers, receiving the funds one year after the drought episode questioned the very purpose of the programme which aims to provide rapid assistance to affected populations in order to limit negative adaptation strategies by the most vulnerable households. The use of the funds depends very much on when they are received and, in this project, the money was largely spent on children's school fees.'

ARC respondent: 'The payout can only cover those most vulnerable – there are others that could benefit but there's only so much to go around. It is a bucket of water that can only cover so much of the garden.'

4.2 EQ1.2 To what extent is ARC contributing to the building of holistic national risk management strategies?

Summary of findings

While ARC has aspirations to build holistic DRM strategies, and while its mission is to provide 'harmonised resilience solutions', we found no evidence of this happening, nor a clear plan to achieve this. There is arguably a need for countries to be able to access independent, impartial technical input on DRF and DRM, but since ARC Group's core business is to sell insurance, ARC Agency cannot be seen as impartial, and it does not have the budgetary space or capacity to provide a broader array of TA; other organisations are better suited for this.

In line with its mandate and vision,²⁵ ARC has clear aspirations to be a DRM leader in Africa, and to not be pigeon-holed as only providing insurance. As stated by one ARC respondent: 'To quote our D-G: "We are not an insurance agency, we are not insurance brokers."' To support this, MoUs with countries offer to provide 'additional analysis and advice, as necessary, to support the development of a holistic national risk management strategy, including integrating ARC into national contingency planning activities'. This evaluation question aims to see how far this is happening and to come to a judgement about ARC's contribution.

The 'development of a holistic national risk management strategy' is an extremely broad and multi-faceted concept. DRM is normally understood to mean 'the application of disaster risk reduction policies and strategies to *prevent* new disaster risk, *reduce* existing disaster risk and *manage* residual risk' (UNDRR definition, emphasis added). Our interviews suggest that this broader focus is not ARC's intention, and neither is it clear that ARC has the capacity or skills to address this extremely broad remit. Some countries have reached out to ARC for input on other aspects – such as community-based DRR and micro-insurance – but detailed

²⁵ Mandate: To help AU member states improve their capacities to better plan, prepare and respond to extreme weather events and natural disasters. Mission: to promote harmonised resilience solutions for protecting African lives and livelihoods vulnerable to natural disasters caused by climate change and other perils of importance to the continent

technical support for this likely needs to come from elsewhere. Countries have cited ADRiFi and SDC as potential partners for broader DRM support.

The one clear exception to this is gender, where ARC's strategy is to support the integration of gender across all DRM activities, not only those focused around ARC's work (see EQ1.4).

Neither is ARC yet providing other DRF tools to provide financial support in the case of a disaster that does not reach the attachment point for a payout. Such tools have been requested by states: for example, Niger asked for support on developing policy and legislation concerning an emergency fund and Mauritania asked for technical support to put together a solidarity fund. ARC Ltd is working to fill some of these gaps, but this remains under development; And, in any case, it is not clear if this should be ARC Ltd's priority.

We would expect there to be organic spillovers from ARC's capacity building – for example, those trained on capacity building for ARC's programme use these skills in other areas, potentially for other perils – but our sample countries did not provide any clear examples of this. ARC is currently applying for funding to provide training on M&E and this would certainly bring value beyond the ARC programme.

ARC respondent: 'In terms of capacity to respond to requests, if the capacity doesn't exist internally, we can have smart partnerships to bring in other expertise to help us deliver on what members states need. We don't have all the capacities to deliver, definitely not, but do we know where the gaps are, and the areas to work on, we certainly do. The question is how do we evolve in interventions in areas that we are not masters – that's a legitimate question that we are very well aware of.'

Thus, ARC Agency's role is somewhat ambiguous – with a narrative about building holistic DRM capacity but without the capacity to deliver this. There is arguably a need for countries to be able to access independent and impartial technical input on DRF and DRM, to have a one-stop-shop for advice and for signposting to other organisations, and to be able to compare different DRM/DRF products and services, but ARC Group's core business is to provide insurance, which means ARC Agency cannot be seen as impartial, and it does not have the budgetary space or capacity to provide a broader array of TA.

Further, ARC does not have staff in each ARC member state, which means that other organisations based in country may have a more detailed knowledge of both technical and political aspects concerning DRM. This particularly applies to ARC Replica partners, and there are many other projects and initiatives which could help to provide TA and build capacity on DRM: for example, the Next Generation Drought Index, the Volta Flood and Drought Management Project, GRiF projects in Mozambique, Malawi, and the Horn of Africa, and the Zimbabwe Resilience Building Fund.²⁶

²⁶ See the context review for information on the Next Generation Drought Index and GRiF projects. For information on the Volta and Zimbabwe projects, please see www.floodmanagement.info/volta-basin/ and www.zrbf.co.zw/, respectively.

4.3 EQ1.3 To what extent do the results of ARC's capacity building in member countries appear to be sustainable beyond its support?

Summary of findings

Currently, the capacity that ARC is building in member states does not appear to be sustainable beyond its support. A few TWGs now require less support from ARC (e.g. Senegal and Madagascar) but these appear to be the exception, with most countries envisaging requiring input for many years. It is a similar picture at the political level: ARC is not yet sufficiently institutionalised and remains vulnerable to fiscal pressure, such that support is fragile in many countries, with ongoing input from ARC required to shore it up.

The biggest constraint on sustainability is the frequent turnover of staff at both political and technical levels. This is problematic because parametric drought risk modelling – both in concept and detail – is often new to people, or more complex than the alternatives, so a new person coming in requires a significant input of capacity building. The other key constraint is the time required from TWG members, who often see ARC as an add-on to their normal duties.

Countries universally value ARC's capacity building, particularly the in-country workshops, as well as the peer-to-peer support and retreats/regional learning conferences, which bring countries together to share and learn from each other. Unfortunately, these are costly for ARC. ARC is seeking to reduce these costs by developing an online learner management system called ARCADE – this shows promise, but its full potential is not yet being achieved as it is not yet widely used. In any case, a hybrid training system is required – using ARCADE for new staff and refresher training, and in-person workshops to enable shared decision-making across government departments.

Other potential areas that could support sustainability include, firstly, systematising lesson learning: the fact that there are common reasons for delays in disbursement, and that turnover leads to a loss of institutional memory, suggests that a more systematic approach is required. Secondly, where they are present, ARC Replica partners and ADRiFi support are currently playing a very active role in supporting member states; other actors based in country are also likely to be able to provide this support.

The sustainability of ARC's capacity building has been in question for a number of years, with some donors frustrated at the continued high levels of effort required from ARC Agency. As described above, this perhaps indicates donors' lack of understanding of the technical and institutional complexity of ARC's work, and the low levels of existing knowledge at country level, coupled with high levels of turnover for both political and technical roles. Nonetheless, there are gaps in how ARC conceptualises and reviews its capacity building.

Capacity building is a core part of ARC's offer – whether this results in a policy or payout or not – but ARC is not able to provide data that show that capacity has been built because it has no clear measurement and monitoring approach in this regard. Nor does it have a strategy or framework for conceptualising how countries' capacity is expected to be strengthened, delineating expected standards at different levels, and with a clear aim of moving towards graduation from the capacity building programme. It is recognised that this

is a common issue across a range of development projects – it is certainly not unique to ARC – but an initiative with capacity building at its heart should be taking a more structured and strategic approach, and with a specific aim of graduation.

EQ (1.1.4) What are the constraints on ARC's capacity building?

Summary: *Countries universally highly value ARC's capacity building. While there are some countries which are emerging as centres of excellence, most require more support, with the biggest constraints being the frequent turnover of staff at both the political and technical levels. This is problematic because parametric drought risk modelling – both in terms of the concept and its details – is often new to people, or more complex than the alternatives, so a new person coming in requires significant input in terms of capacity building. The other key constraint is the time required from TWG members, who often see ARC as an add-on to their normal duties.*

ARC has been delivering in-country technical training (on risk modelling, contingency planning, and RTP) to – on average – around 650 people every year, across 11 countries. This includes a detailed series of capacity building workshops for countries joining the ARC programme, as well as regular workshops for established countries to update contingency plans and review RTPs

Countries explicitly value the capacity building of ARC – this came out very strongly in the KII's narrative and scoring. Countries value the continuous engagement and support from ARC and recognise the value of ARC's tools, and its capacity building, which helps them to understand and use the tools, and the support on solving problems if required. On a four-point scale, the values that countries assigned to overall capacity building were universally between 3 and 4, with an average of 3.4. Average scores for questions on capacity building for ARC's three main areas – risk modelling, contingency planning, and RTP – were all over 3, with the lowest being for risk modelling. This chimes with scores from ARC's own client satisfaction surveys from 2017, 2018, and 2019, where participants reported finding training useful and 90% reported being satisfied with ARC's technical support.²⁷

Nonetheless, there is also a recognition that ARC's capacity building work '*is not done in any country – it is still early days for many of them. However, we do have best in class and centres of excellence emerging*' (ARC respondent). The biggest constraint on capacity building is the turnover of staff: this came up in almost every single interview. It applies both at the political and the technical level.

Government turnover at the political level. Elections and other political processes cause a high turnover in ministers. To give one example, the Malawi Minister of Finance changed three times in the space of six months. Significant work is required to get new ministers and their staff up to speed. As an illustration of how political changes can affect ARC's work and workload, in 2021 the following events took place:

²⁷ This was rate on a scale of 1 to 5: not satisfied at all, unsatisfied, moderately satisfied, satisfied, very satisfied.

- Benin was expected to take a policy for the first time in 2021, with workshops undertaken and discussions advanced. However, the elections and the subsequent government formation processes meant that ARC was deprioritised, and no policy was taken.
- In Chad, the death of the former president and ensuing political upheaval derailed participation.
- In Zambia, the Minister changed after the elections, but with support from the Permanent Secretary, who remained in post, ARC was able to secure the policy renewal.
- In Madagascar, the President sacked all of his ministers in mid-August; five new ministers needed to be brought up to speed on ARC before the season started in October.
- Mali was suspended from the AU after a coup, so a major payout (the first to Mali) could not be made, with significant efforts made by ARC to find alternative solutions.

This shows just how challenging it is for ARC to secure policies every year. By contrast, we found only one instance where political change had supported ARC's work – a change in the Minister of Finance in 2020 enabled Malawi to re-join the pool.

Government turnover at the technical level. Frequent changes in TWG members are a major challenge because this is a highly technical area – particularly in relation to risk modelling and RTP – and so a new person coming in requires significant input in terms of capacity building.

According to one ARC respondent, staff turnover varies across different government departments: while some very technical roles may be relatively constant – for example, meteorological experts tend to stay in place for a while – some ministries have positions that shift around frequently – such as those relating to economics and vulnerability. Other interviewees cited brain-drain, as people move on to greener pastures outside of government. To give one example, in Côte d'Ivoire the combination of an extra workload without a higher salary meant that in 2015 and 2016 a lot of people left the TWG.

In terms of the frequency of turnover, there were a range of different responses on this, with some agreement that people typically stay in post for two to three years, but with examples given of much more frequent turnover, such as in Zimbabwe. According to the 2020 Zimbabwe process evaluation: 'One constraint regularly mentioned in the KIs was the frequent movement of staff in identified roles in the programme – usually to other roles within the administration – resulting in loss of institutional knowledge and experience.'

Of course, the issue of government staff turnover is a concern in many capacity development activities, including on the donor side. There is a recognition that those who leave the TWG may be able to use these skills and knowledge elsewhere, potentially to advocate for ARC, but there is a net loss.

TWG staff time. The other constraint that came up in almost every interview was lack of time. ARC has made a strategic choice to work through people who are already integrated within government, rather than recruiting a new position. While providing clear advantages, this involves a constant juggling of priorities; for most, ARC work is perceived as an extra/add-on, on top of their (already over-full) normal workload, rather than a core part of their role. Managing this competition between ARC and the activities of government

ministries can be frustrating and stressful; it can lead to delays as people have deadlines for their 'day job'. It can also mean that people are distracted when attending trainings/workshops. Sometimes ARC work is deprioritised and sometimes it has to be delegated to others.

ARC work is not a constant through the year, but peaks at certain times, which can be difficult for TWG staff to accommodate. In a period of a few months of the year, a very significant part of a Government Coordinator's time is required for ARC. The country MoU states that 'The Government Coordinator shall be solely dedicated to the Programme with no other responsibilities (except as agreed with the ARC Secretariat) within the Government'. It is not clear what has been agreed, but the Government Coordinators certainly do not spend most of their time on ARC work.

EQ1.3.1 Is there evidence that, over time, countries are requiring reduced input from ARC?

Summary: A few TWGs now require less capacity building support (e.g. Senegal and Madagascar) but these appear to be the exception, with most countries envisaging requiring input for many years. It is a similar picture at the political level: ARC is not yet institutionalised, such that support is fragile in many countries.

To date, ARC capacity building has mostly taken the form of **technical training** (focused on members of the TWG) on risk modelling, contingency planning, and RTP, led by ARC's technical teams, with specific individuals appointed to deliver that work in each country. This work is clearly defined, with a range of training materials that are well-developed. There are two newer areas – gender (which will be covered in EQ1.4) and M&E, where some work has been done to develop tools and approaches, but the ARC team recognise that there is much more to do, and this is limited by resources.

We found that there are a few countries where capacity is now very strong– for example, Senegal and Madagascar – and where ARC's role is much reduced. Where countries are more skilled:

- ARC may not need to provide support – for example, in Senegal on RTP, ARC does not attend the meetings, and the TWG undertakes the simulations, uses the payout calculator, and defines the parameters without ARC input;
- ARC's role shifts from leading and driving to facilitating and support – for example, the ARC role in a RTP workshop in Madagascar was reduced because the discussion was led by government staff, who did the analysis and generated the results to establish the RTPs, with the questions posed to ARC showing a real depth of understanding of the model.

This evaluation did not undertake a political economy analysis but when asked why capacity was so strong in Madagascar, ARC staff suggested that this was due to strong leadership – an active and engaged Programme Supervisor based in the Prime Minister's office, driving a very capable TWG that is trusted by decision makers.

Country respondent: 'I can see that the time is coming where we might not need so much support but not for the next five years. I do foresee us being independent at some point but not in the short term.'

Country respondent: 'I believe we are still using the same number of [training] days as we were in the beginning. We feel there is still room for us improve and the training helps with that. We want to feel internal ownership so need the training to continue.'

Elsewhere, countries are explicit that capacity has been built, but also that this work is not yet complete. This is for two primary reasons: first, this is a highly technical area, with a steep learning curve for most people, and staff turnover means constant new staff; and second, the TWG is required to undertake annual or biannual reviews/amendments/customisation, rather than this being completed once.

According to the Country Engagement Strategy, as capacity is developed, and where building of political ownership has been a success, ARC Agency's involvement will reduce, and the relationship is expected to transition to the ARC Ltd client services team. However, this has not happened in any country and neither ARC Agency nor ARC Ltd staff appear to believe this is feasible or realistic.

As well as technical training, there has also been some **training/awareness raising for decision makers** and parliamentarians. The ARC Strategy recognises the need for more work in this area, and that gaps in understanding here result in delays and a refusal to sign the ARC policy.

Country respondent: 'To convince the political decision makers of the interest in putting US\$ 1.5 million in an insurance that is not sure to pay out more than every four years is complicated. It requires advocacy, it required a lot of learning time. So yes, I think it is a durable product that is valuable, but there are still multiple years of advocacy that are needed.'

Our respondents were clear that new countries will always require a high level of political engagement, including from ARC senior managers. In countries where there has been a loss of trust in the model, significant advocacy will be required with actors such as civil society and the media, as well as parliamentarians, to reverse the loss of trust.

For countries which are loyal buyers of ARC policies, these do require less input, but this loyalty is fragile, and is dependent on trust in the model and the support of the key decision maker, who changes frequently. So even in these countries, high-level visits are important to strengthen support and engagement – for example, the GDG's visit to Senegal in 2021 was important to smooth relationships after Senegal did not join the pool in 2020/1. And while receiving a payout strengthens political support, even then Programme Supervisors can find it difficult to convince ministers to purchase a policy without providing a guarantee of a payout.

EQ1.3.2 To what extent have supported countries institutionalised organisational capacity?

Summary: *The number of countries with a functional TWG has increased steadily, from 12 in 2015 to 21 in 2021 (the 2021 logframe target was 25).²⁸ The evaluation found that countries understand and are using ARC's established core tools and guidelines, but institutionalisation is limited by lack of systematic learning, staff turnover, and, in some cases, a lack of resources.*

21 countries have a functioning TWG, which represents an institutionalisation of organisational capacity. TWGs are set up to deliver ARC, and it is not known whether the groups – or individuals within it – are likely to continue to work together post-ARC. This is not something that the evaluation considered.

We reviewed several factors that would support the longevity of capacity building and an important gap was around **lesson learning**. While informal lesson learning is likely to be taking place, particularly during in-country workshops, the evaluation found little evidence of formal lesson learning at country level. This can be seen, for example, in relation to contingency planning, as the TRC once noted that the same mistakes were being made year after year.

One key gap is the failure to learn from process evaluations. The fact that ARC undertakes evaluations after every payout (at non-trivial cost) represents a huge opportunity to learn and adapt – both for ARC and country teams. And it should be noted that no other regional risk pool evaluates payouts at all, meaning this is a unique approach. However, while process evaluations are presented to and discussed with Government Coordinators, we found no evidence of a systematic approach to learning lessons from the development and implementation of the FIP and the process evaluation, or of folding that into the development of the subsequent OP. Considering the issue of staff turnover, and thus the loss of institutional memory, something more systematic would add value.

Other aspects that affect institutionalisation of capacity include a) TWG staff turnover, as previously noted. The evaluation found a couple of good examples of attempts to deal with this – for example, trying to ensure a solid handover, training two people for each role, keeping on retired experts to work alongside new more junior staff – but the problem of turnover remains; and b) institutional location of the Programme Supervisor and Government Coordinator: depending on power dynamics and the existing interests and capacities of different departments, the Programme Supervisor and Government Coordinator may be more effective at institutionalising ARC if they are based in the Prime Minister's office, the civil protection department, or the ministry of finance. This will be country specific.

²⁸ Numbers according to ARC's logframe. It is recognised that 'functional' is not well defined and is potentially subjective.

EQ1.3.3 Does ARC have a training system that can build and sustain capacity in country at a reasonable cost?

Summary: *ARC's total annual costs for capacity building are around US\$ 5.5 million, which is not viewed as reasonable or sustainable by its donors. The recently developed online learner management system, called ARCADEmy, provides the potential to reduce training costs – but this potential is not yet being fully achieved as the system is not yet widely used. In any case, there is a consensus that a hybrid training system is required – ARCADEmy is useful for new staff and refresher training, but in-person workshops are crucial to enable shared decision-making and peer-to-peer support, and regional learning workshops are also valued and requested by countries, to strengthen capacity. More radical solutions for how the support is delivered are required in order to significantly reduce capacity building costs.*

It is not possible to find precise **costs** for the capacity building but – broadly speaking – all costs falling under Strategic Objective 2 are related to capacity building. Looking at ARC's budgets (actuals are not available), ARC consistently budgets for approximately US\$ 5.5 million per year, which is 45% of the total ARC Agency spend. This covers workshops, regional workshops, payments to country experts and Government Coordinators, scoping missions, policy dialogue missions, country strategy development, and a range of other activities.

When considering whether this is a 'reasonable' cost, it would be helpful to provide **comparisons**. However, this is difficult as ARC is unique and the best comparison is TA provided through the World Bank, which does not provide clear figures. From what we do know, the World Bank has provided TA to 22 countries (with different levels of engagement in each) costing a total of US\$ 21.1 million from 2012 to 2021 (World Bank, 2021); the majority of this work will have been implemented through the ADRF programme 2015–2020 – so we estimate an approximate spend of around US\$ 3-4 million per year. Another point of reference is the GRiF project in Mozambique, where US\$ 2 million has been allocated for TA to build government capacity and develop an insurance product over three years. These costs appear to be broadly similar to ARC's spend in aggregate. However, without more information about the activities undertaken and results achieved with the spend, no meaningful comparison can be made. Attempts to obtain this information were unsuccessful.

Attempts to reduce costs through online learning: ARC is now developing an online learner management system, called ARCADEmy, to standardise and systematise its training programmes, to ensure that relevant materials and remote support are readily available, and to reduce the level of expenditure on in-country capacity development. This came online in mid-2021 and new modules and translations continue to be added.

The online system clearly has the potential to reduce capacity building costs; however, this is not yet being fully achieved as the system is not yet being well used. According to ARCADEmy figures from January 2022, only 25% of the people assigned to courses have completed *any* modules, suggesting a lack of interest or engagement with it. Most users to date have been ARC staff; only around 75 non-ARC staff have used the system so far and only half of those have completed all the courses assigned to them.

The evaluation found a similar picture: out of 11 country staff with whom this was discussed, two had not heard of ARCAcademy at all, seven had only vaguely heard of it and had not used it, and two had used it. One of those was very enthusiastic, having completed all six of their assigned courses, and they had some constructive suggestions: they requested to be able to download the modules, which would enable users to be protected from unstable internet services and to share modules with other colleagues, which is currently not possible. The other user struggled with a module and required assistance from a colleague to understand it.

There is a consensus among respondents that a hybrid online/in-person training system is required. ARCAcademy is useful for new staff and for refresher training, but in-person workshops are crucial to deal with poor internet access, the need to ask questions, and most importantly to enable shared decision-making. Online learning is useful in order to understand tools and processes, but much of what ARC does involves making choices, and that requires group-based discussion, bringing in the views of multiple government departments to reach a decision with consensus/broad support. Other capacity building methods are also reported to be very helpful – particularly peer-to-peer and regional learning workshops.

One issue that is worth noting is that the development of online training modules would normally have started from learning principles, with materials developed from scratch and being heavily curated by a learning expert. However, ARC chose to develop the training modules directly from the existing training materials (PowerPoint presentations) in order to speed up the process and reduce the workload for ARC staff. This has advantages because learners see the same messages and ways of presenting the information, but it also means that any weaknesses in existing training materials will have been reproduced. While ARC staff are dedicated and proficient in their technical area, they are not always expert trainers, and elements of ARC are highly technical, requiring careful explanation and ‘scaffolding’ (explaining background concepts and key definitions before moving to the next level). Further, these modules are attempting to train people from different cultural and linguistic backgrounds, which is challenging.

A more fundamental change to capacity building is required in order to significantly reduce costs. This could potentially be done by providing more training of trainers at country level, and integrating the training into existing programmes, and/or collaborating with in-country organisations that are already anticipating, planning, and providing a response, such as WFP.

EQ1.3.4 To what extent can partners/other organisations provide ongoing support to member states – in the TWG and at the political level?

Summary: The support from ARC Replica partners and ADRiFi is recognised, valued, and is helping to building member state capacity. There was surprisingly little mention of the role of other in-country actors. In relation to the World Bank – the other primary actor in this space – synergies are not being achieved and there is potential for significant inefficiencies.

The evaluation revealed very strong appreciation by government counterparts for the support from ARC Replica partners and ADRiFi, where they are present. This was particularly noticeable for ARC Replica, where government respondents noted that the detailed engagement and support from Replica partners was:

- **Critical in delivering skills and being part of the team.** This is well illustrated by two quotes from country respondents: *‘With Replica and with the WFP we found a net improvement in our technical group, so ARC helped but WFP really helped.’ ‘This is government-led but we feel like the Replica partners are part of us. We want to work together.’*
- **Enabled only through ARC Replica.** Although clearly WFP and Start Network members were operating in country prior to ARC, this strong engagement only occurred due to Replica, not before.

Replica partners are in a particularly strong position to provide support to TWGs, as they are based in country 100% of the time – unlike ARC staff. They are thus able to engage with government more frequently and with more consistent follow-up, and they have existing skills in disaster preparedness and response.

In our interviews, there was surprisingly little mention of the engagement of civil society, United Nations agencies, or other actors. This might in part be because the questions focused on capacity related to ARC and the TWG, rather than the national drought response architecture as a whole. Nevertheless, this likely represents a missed opportunity for closer coordination and integration of work done by different actors in country.

There was also no mention of the World Bank, which – as described in detail in Annex A.4 – has been extremely active on DRF in Africa for a number of years. Key initiatives include: the 2015–2020 ADRF programme and other programmes providing TA to 21 countries at a cost of US\$ 21.1 million; GRiF projects valued at US\$ 31.5 million; the Horn of Africa De-Risking, Inclusion and Value Enhancement (known as HoA-DRIVE); the Next Generation Drought Index (NGDI); and continuing TA to develop DRF strategies and active marketing of contingent credit (known as Cat DDOs).

As a result, the World Bank has strong relationships with many African governments, mostly ministries of finance, which could be leveraged by ARC. Many of the initiatives mentioned above are occurring in places where ARC is also active: for example, the NGDI is developing most strongly in Senegal; GRiF has existing projects in Mozambique and Malawi; DRF strategies are being developed with World Bank support in Lesotho, Senegal, Benin, Mozambique, and Niger. Further, GRiF is developing a new project to build government capacity in 10 countries (globally) on DRF, costing US\$ 5.5 million; this will target existing GRiF projects initially and may expand.

Thus there is both an opportunity for coordination and a need for collaboration to ensure that work across ARC and the World Bank is most effective. Otherwise, in the worst case, World Bank activities – particularly GRiF and Cat DDO marketing – could undermine ARC.

EQ1.3.5 To what extent is there a belief that ARC is the appropriate approach for addressing countries' risk management needs at different levels?

Summary: *For countries that are already policy holders, TWG members are strongly committed to ARC, believing that it is a key mechanism in risk management (with one concern around model validity); this conviction is often much less clear, and the support more fragile, for decision makers on the political side.*

This evaluation question seeks to address the culture and beliefs at different levels of government, recognising that these are key to institutionalising support for ARC. From our interviews with countries that are already policy holders we identified the following points (as described elsewhere in this evaluation report):

- On the technical side, there is very broad support from members of the TWGs for all aspects of ARC – including the underlying premise, the core concepts, and the practical implementation. TWG members understand and value the role that ARC can play in their countries' risk management. The only current major concern expressed by respondents is around the validity of the models, and this could pose a serious threat.
- On the political side – concerning decision makers, in terms of ministers and parliamentarians – the support is less deep and is highly vulnerable to changes in individual decision makers.
- Loss of trust can have long-term repercussions – while technical staff in Kenya are keen to re-join the pool, decision makers have lost confidence in the product after two years of misaligned expectations.

EQ1.3.6 Is financing of ARC premium institutionalised?

Summary: *Some countries are 'loyal buyers' of ARC policies, where there is an expectation that the budget for a premium will be approved each year. However, this remains fragile – due to the regular changeover in decision makers, and due to general fiscal pressure, which means that the premium amount is under constant pressure.*

The strong message from ARC staff – who have the most detailed engagement with governments – is that they have not yet institutionalised risk financing, such that when a new minister/decision maker takes up their position, due to election cycles or other changes, advocacy and knowledge sharing need to be restarted.

There are some countries which have bought policies in at least three of the last five years, and where we would expect to see financing of the premium as a standing budget item – this would include Côte d'Ivoire, Madagascar, Mali, Mauritania, Niger, Senegal, the Gambia, Togo, and Zimbabwe. In Senegal, for example, the insurance premium is part of the budget of the *Direction de la Protection Civile* (Civil Protection Directorate, within the Ministry of the Interior), which has the legal responsibility for supervising DRM activities. Budgeting for the ARC insurance premium has largely replaced a previously higher, but fluctuating, annual budget for 'prevention and control of disasters' (OPM 2021a).

Even for these countries, however, things are not always straightforward: for example, in Senegal, the late and unexpected changes to the policy in 2020 meant that Senegal did not take a policy in Pool 7. And in Mauritania, continuing engagement in ARC is dependent on confidence in the risk model, which is currently facing significant questions. Even for countries that have received a recent payout, it can be challenging to agree the budget to pay the premium. In some cases, the Programme Supervisor has to work extremely hard ('fight') to ensure access to the funding ('to squeeze it in'); and there is constant pressure to reduce the amount of the premium, and therefore coverage. Having an ARC Replica policy supports government retention of the policy in some countries, and offering premium subsidies is not only a financial incentive but also underscores the trust the donors have in ARC, thereby building confidence.

4.4 EQ1.4 To what extent is ARC achieving its objective of transforming DRM approaches to ensure equality for vulnerable men and women in member states?

Summary of findings

ARC has an ambitious gender strategy, which includes the aim to 'transform DRM approaches to ensure gender equality for vulnerable women and men in ARC Member States'. The strategy was agreed in September 2019 and considerable work is being undertaken to work towards this. The evaluation is not considering all the work of the gender unit but more narrowly focuses on whether gender considerations are being explicitly and substantively integrated into ARC's core capacity building work, and explores whether there is an intersectional approach to gender, thus considering other factors – such as age, disability, and other reasons for marginalisation – which can compound inequalities due to gender.

It is worth being explicit that the ARC gender strategy has a broader focus than ARC's core business. The strategy does not focus on how gender should fit within ARC's programme, or DRF mechanisms, but more broadly in relation to DRM. This wide scope has been chosen as a result of the early consultation on the strategy, which found that focusing directly on insurance was too difficult for stakeholders to engage with, due to the low level of knowledge on gender. While this may be a pragmatic approach, it sets the gender work rather at odds with the rest of ARC's activities, since it is at a different scale compared to everything else that ARC does.

Progress in this area has been slow to date, at least partly due to Covid-19 restrictions. By the end of 2021, the targets were for four countries a) to have conducted gender analyses, and b) to have undertaken gender training. Only one has been achieved, against both of these. By contrast, 20 (against a target of 19) member states are reported to have integrated gender into their contingency plans with disaggregated beneficiary targeting; however, our review found that this was not well operationalised in the FIPs, where gender was not always mentioned explicitly. ARC scores well on two of the three InsuResilience benchmarks on gender-responsiveness (InsuResilience 2021) – on gender policies and contingency plans – but not on the third in relation to the collection and use of sex-disaggregated data to understand the differential impacts of payouts on beneficiaries.

Overall, the evaluation team found strong commitment and intention to gender mainstreaming at the country level, and the work of the gender unit has been appreciated. However, there are distinct gaps in the FIPs and while the SOPs clearly refer to disaggregated reporting, reporting on food and cash distributions is generally not disaggregated, and hence it is not possible to tell if beneficiaries are as intended.

Considering the low base of knowledge, and the hesitancy among some ARC staff and in some countries, the gender work will be needed for some time. Within ARC, the Country Engagement Managers play a crucial role in opening the door on gender, but there is some way to go before this is automatic. There are reportedly some quite entrenched views (especially in WCA), but there is a sense of progress now for ESA, where the governments are more accommodating in regard to gender integration.

The ARC gender unit has developed several partnerships, including with UN Women, and there is scope to partner with the many other organisations, at national and regional levels, that can support gender and DRM at a national level. Working more strongly through ARC Replica partners could offer real opportunities.

In relation to inclusivity and intersectionality,²⁹ the ARC gender strategy and documentation refer only to gender. This decision has been taken as a pragmatic approach, based on the finding (from the consultation period) that existing knowledge on how to integrate gender and vulnerabilities into DRM is very low. However, our interviews suggested that there is a broader understanding of vulnerabilities (at least for some TWG members), and there is a danger that the gender strategy will be simplified and reduced solely to women, which will create omissions.

EQ1.4.1 Are gender and vulnerabilities explicitly considered and incorporated in ARV customisation, OPs, and FIPs, with a particular focus on targeting?

Summary: The evaluation team found strong intention around including gender in contingency planning. However, in several cases this is not well operationalised in the FIP, and gender is not always mentioned explicitly.

When asked whether gender is explicitly considered and incorporated in ARV customisation and contingency planning, one country respondent replied *'I would rate that as a 2 out of 4; we still have quite a lot of work to do on this. I believe the Country Managers realise they are lagging behind in this area.... The political will is there in the country to mainstream gender. It is more a question of time and resources.'*

There is major scope to include gender and vulnerabilities in **contingency plans**. According to ARC KPIs, in 2021, 20 member states (against a target of 19) integrated gender into their

²⁹ Most development-focused organisations in the disasters sector take an inclusive approach to vulnerability. People are not only vulnerable to disasters based on their gender but also based on age, disability, and other marginalisation factors (such as ethnicity, albinism, and those who are politically excluded). Those who are most vulnerable are those who have intersectional vulnerabilities – for example, older men with disabilities or women from a marginalised ethnic group.

contingency plans, with disaggregated beneficiary targeting³⁰ – for example, intended beneficiaries are often female-headed households or pregnant and nursing women. However, in terms of quality and depth there is scope for improvement. The quality assurance reviews of five ARC policies conducted by the Centre for Disaster Protection in late 2020 highlighted areas for improvement around ensuring that the community targeting did not reinforce existing social inequalities (Zambia, Malawi, Zimbabwe), that physical cash distributions did not raise a safety issue for women (Malawi, Zimbabwe), and that a cash-for-work scheme did not disproportionately exclude women, older people, and people with disabilities (Madagascar). Although the TRC often does raise issues relating to gender, it has no specific criteria on gender against which to evaluate or score OPs.

We found no evidence (from our KIs or the Centre for Disaster Protection quality assurance reviews) that OPs have input/**consultation with communities** or representatives of disaster-affected communities.³¹ This is unfortunate because such engagement could support choices on the most effective interventions and could improve targeting criteria and approaches.

There are considerable gaps on **disaggregation for targeting**. Some FIPs provide criteria for targeting,³² and some interventions are specifically targeted – such as the Senegal payout in 2020, which targeted malnutrition support to children under five years old. However, there are other cases where the targeting is very vague, and the FIP does not provide the detail to understand how this would happen in practice. For example, the Zimbabwe 2020 FIP simply states ‘The most vulnerable are prioritised first, for example child and female-headed households’, and the Senegal 2020 FIP states that household targeting criteria for food assistance is based on ‘the assessment of the state of food security, nutrition, vulnerability, livelihoods, etc.’ And according to the process evaluation for Mauritania 2020: ‘The gender dimension in relation to the intervention was not taken into consideration during the preparation of the FIP’. It is notable that ARC Replica partners have a stronger focus on gender in their OPs and FIPs and this follows through to process evaluations, with impacts much more clearly disaggregated

The evaluation was not able to fully explore how gender is incorporated in the **risk models** – this may be a focus for future work. The interviews suggested that this is very early days – for example, one risk modelling lead said that gender comes into play in terms of targeting, but not in ARV customisation. There is a recognition that more can be done on disaggregating the data; it should be possible to disaggregate by sex, age, and household head, and some datasets would be able to look at disabilities.

³⁰ There were 24 valid contingency plans in 2021 – 19 for drought, three for flooding, and two for O&E.

³¹ The exception is Kenya, where an ARC payout would be used in the Hunger Safety Net Programme, which has well-established community engagement processes.

³² For example, see the criteria from Madagascar 2020 below:

‘Households that have not yet received any support in the form of a cash transfer from any other stakeholders. Households will be selected giving priority to single parent households, particularly those where the parent is a single woman with children and elderly persons dependent on her;

Households where no-one can work (elderly, handicapped people), irrespective of any dependent or malnourished children;

Households according to the number of young children (under 5 years);

Households according to size, giving priority to large families;

Households according to the availability of workable land.’

EQ1.4.2 Are core country staff committed to, and capable of, incorporating gender and other vulnerabilities in their ARC operations?

Summary: *At country level, the evaluation team found a strong commitment to gender mainstreaming, and early training has gone well, with more progress in ESA than WCA. However, more is needed, including strengthening ARC staff engagement.*

Perception of relevance/importance: The consultation process undertaken in 2019 to develop the gender strategy found that taking a gender-sensitive approach to DRM is not something that is well embedded, either within ARC staff or in member states. There is a sense that traction is starting to be achieved now, particularly in ESA, but the fact that this is not a natural, automatic approach, and the fact that there are particular gaps in west Africa, also came out in several interviews with ARC staff.

However, in all our interviews with government staff, respondents strongly supported the relevance and importance of gender and other vulnerabilities for ARC. Some countries explicitly referred to a broader focus than gender only – for example, in Côte d'Ivoire, where the government department leading on this focuses not only on gender but on all those who are vulnerable. Another country has identified children as a vulnerable group and is increasing its work in this area, while another referred to women, children, and people with disabilities.

Training and tools: Gender modules have been prepared for ARCAcademy and training workshops have been rolled out to ARC staff (where mandatory) and Government Coordinators. For the Government Coordinator workshops, ARC insisted that one to two members from their ministry of gender also take part. Attendance at these workshops was strong in ESA, with five to six people per country often attending. The evaluation's online survey found that the capacity building on gender support has been significantly less successful than the support in other technical areas but this did not tally with our interviews or ARC's KPIs, and may be because this work has only just begun in earnest – the strategy was agreed in September 2019 and the 2020 roll-out was heavily curtailed by Covid-19 restrictions.

In October 2021, the gender unit produced five 'gender guidance notes'³³ to help build understanding at the country level. Our interviewees had not seen these as they have only recently been finalised and they are not yet available on the ARC website. These are an important addition to ARC's tools and can help to fill gaps – like the fact that, on contingency planning, opportunities and requirements for the incorporation of gender are flagged in the contingency planning guidelines but are not well articulated.³⁴

³³ On contingency planning, ARV, country engagement, HR, and O&E.

³⁴ According to the contingency planning guidelines: 'Targeting – Countries will need to provide information on how they will carry out targeting of beneficiaries, the expected profile of beneficiaries and categories of beneficiaries, what type of targeting mechanisms and criteria will be used to identify the different categories of beneficiaries, and how they will ensure that the appropriate assistance reaches the intended beneficiaries in a transparent manner with attention to gender equality and social inclusion.'

Has gender been adequately incorporated, what constraints are there, and what more is needed? The gender unit has a strong and dynamic leader and is actively supported by the GDG and a Board member, which is positive. However, there is scope to institutionalise gender more within ARC's functions.

There is a recognition that while some people are highly sensitised, fully incorporating gender requires a gradual transformation of mentalities that will take time, and TWG interviewees recognised that this is a journey. Zimbabwe has seen specific investment in gender, with the production of a gender analysis, action plan, training manual, and policy brief, and with the training of trainers; there is now a 45:55 female:male ratio in the TWG.

In terms of what more there is to be done, a key plank in the gender strategy is to work with the ministries of gender in each country and to bring them into the TWG so that they take ownership of the gender mandate and ensure it is mainstreamed throughout the TWG's work. This is a new approach and is perceived to be highly successful in Zimbabwe. The TWG MoUs have been revised to add in a further workstream – 'Gender, advocacy, and communication' (which is a rather diverse set of issues) – to bring in the gender ministry as well as civil society.

There is recognition that there is a lot of work to do, and that the starting position is very low, and one ARC respondent admitted that gender often 'escapes our mind'. There is also some pushback from ARC staff in some areas – one concerns the drive for gender parity in the TWG, as there is a feeling that this is outside of ARC's control and TWG roles should be filled based on skills; another relates to the need to nuance the gender message in countries where this is not a perfect fit with current cultural norms.

EQ1.4.3 Where payouts have occurred, is reporting undertaken to assess whether beneficiaries are as intended?

Summary: In general, reporting on food/cash distributions is not disaggregated and hence it is not possible to tell if beneficiaries are as intended.

Most countries are not able to report fully on the beneficiaries of the payout, including on their gender. Some of these weaknesses are fundamental – for example, in Madagascar and Zimbabwe in 2020, the distribution lists were not disaggregated, either as target numbers or actual recipients. Even for the 2020 Senegal payout, where women were fully involved in targeting through the inclusion of a women-specific beneficiary selection committee, Government of Senegal reporting was not disaggregated by gender of household head, so not much can be said with certainty about gender inclusiveness.

The process evaluations have had to fill these gaps through their own survey work. For the Madagascar and Zimbabwe 2020 payouts, the process evaluations found that 57% of

According to the contingency plan template, the OP must provide: 'One paragraph on vulnerability (sub-national, gender, age cohort, rural/urban, household, etc.) of those most affected by drought

- What type of targeting mechanism and criteria will be used (e.g. geographic, socio-economic, livelihoods based, both, etc.)?'

recipient households in both countries were headed by females and suggested that this could be extrapolated for the full programme.

The process evaluations have identified that in several countries (including the 2020 payouts to Zimbabwe and Côte d'Ivoire) a key issue has been the lack of a team or individual tasked with delivering timely and accurate programme reporting. For Senegal 2020, according to the process evaluation: '[Government of Senegal] agencies relied on their regional offices' traditional systems for monitoring and reporting, which have not proven to be timely and effective, and did not meet ARC requirements for rigorous, timely monitoring.' It could be the case that the OPs include information on disaggregated M&E because this is what is required for the OP to be approved, but without much consideration of how this will be achieved or paid for.

ARC's M&E team are aware of these shortfalls and have identified the lack of capacity in country as a critical weakness that needs to be addressed. Initially, capacity building on M&E systems was not a part of ARC's capacity building programme, and funding was not earmarked for this. The M&E team have worked to include this in some proposals, but this has been rather piecemeal. The team are now working with two countries that will have payouts in 2022 to ensure there are more resources and capacity for M&E.

5 Findings: demand and sustainability

5.1 EQ3: Is ARC establishing and increasing demand for its existing (and forthcoming) products and services?

Overall finding: ARC's approach to generating demand is driven primarily by expanding its product offering and addressing constraints to risk pool accession. However, while various products are being developed, the pace of development and release has been slower than expected. Despite efforts to update it, concerns about ARC's drought risk model persist and may undermine demand. The risk pool has grown considerably in recent years. This appears to be due in large part to the introduction of premium subsidies and Replica, while the number of new countries joining the pool remains a concern. Member states value the drought insurance and Agency's engagement, yet caveat this as being contingent on receipt of payouts and note challenges with customising the model.

This section looks at two evaluation questions: the first relates to ARC's efforts to establish and increase demand for its existing and forthcoming products and services (EQ3); the second asks what the likelihood is of the longer-term sustainability of the ARC Group (EQ4). The findings for these EQs draw on interviews held with representatives from the ARC Group, various donors and experts in disaster risk insurance, as well as representatives from a sample of countries that have purchased ARC insurance or who are members of ARC but who have not yet bought its insurance. The analysis also draws on documentation such as reports from ARC's monitoring system, and its strategies for growth and funding.

The following sub-sections explore the extent to which ARC is effectively fostering demand among its member states for its products and services. The analysis looks at three sub-questions about *growth in line with expectations* (3.1), the *perceived value of ARC's products and services* among member states (3.2), and the *activities ARC undertakes to foster demand* among its member states (3.3).

5.2 EQ3.1: Is ARC succeeding in growing sales in existing products, and growing the use of ARC Agency support, in line with expectations?

Summary of findings

The size of ARC's risk pool has grown considerably in recent years, from three countries in Pool V (2018–19) to 13 in Pool VIII (2021–22); in addition, there has been a growth in the number of insurance products ARC offers. This growth has been driven largely by premium subsidies and Replica. However, the number of countries with sovereign insurance policies has not grown in line with logframe targets in recent years and does not appear to be on a trajectory such that ARC will achieve growth targets in the short term. The value of insurance sales has exceeded logframe targets, though this is likely a result of the increased humanitarian (ARC Replica) policy uptake. ARC support to member states, when quantified

by countries with Certificates of Good Standing and approved contingency plans, is currently in line with indicator targets.

EQ3.1.1 Has the number and value of insurance sales grown in line with logframe targets?

Summary: *Out of the four perils that ARC has or is developing insurance products for, policies for two are currently in existence and available to states (drought and tropical cyclones). For ARC's drought product, it achieved its target in 2020, while it achieved 76% (13 out of 17) of its 2021 target. The tropical cyclones product, launched in November 2020, achieved half of its target in 2020 and 2021 (one out of two for each year). ARC's flood product has yet to be launched. As such, it is unlikely to achieve its initial target of three (2022). O&E is also still in development and is due to launch in the second half of 2022, having missed its target of two in 2021. As for the monetary value of ARC's insurance sales, ARC has generally exceeded its targets.*

A number of indicators in ARC's logframe relate to ARC's growth expectations. The result area most directly related to this is Outcome 2, which states: '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'.

The first Outcome 2 indicator monitors the number of member states with ARC insurance policies (paid annually), disaggregated by perils. Table 7 shows the targets and actual achievements for this indicator from 2020 to 2021, with targets identified from 2022 to 2024.

Table 7: Outcome 2.1 – member states with ARC insurance, 2020–24

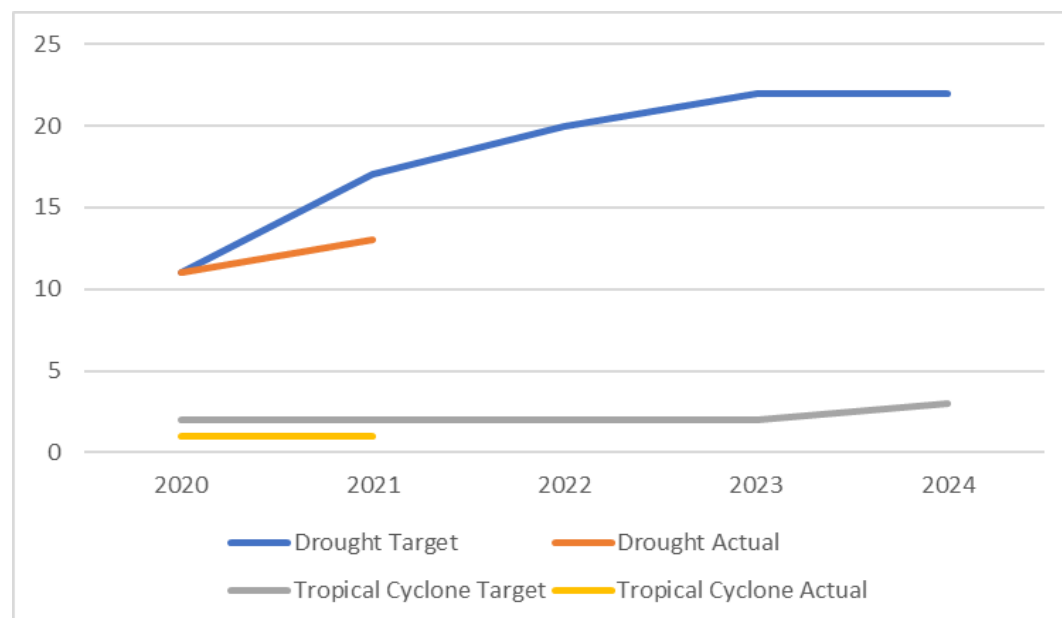
Indicator	Baseline (2019)	2020		2021		2022	2023	2024
		Targets	Actuals	Targets	Actuals	Targets	Targets	Targets
Outcome 2.1: Number of ARC member states with ARC insurance policy (annually), disaggregated by perils								
Drought	11	11	11	17	13	20	22	22
Tropical Cyclone	0	2	1	2	1	2	2	3
Flood	0	0	0	0	0	3	3	3
O&E	0	0	0	2	0	4	6	8

Of the four perils listed, policies for two are currently in existence and available to states (drought and tropical cyclones). For ARC's drought product, it achieved its target in 2020 (though this was the same as the baseline, indicating no particular performance result), while it achieved 76% (13 out of 17) of its 2021 target. Its targets rise to a further 20 and 22 for 2022 and 2023/24, respectively.

These results are an improvement on ARC's previous risk pool period (2014–19), which had considerably lower policy uptake (ranging between three and six policies during that period). However, in the absence of a rapid increase in the uptake of these products, these trends suggest that ARC is unlikely to achieve its targets between now and 2024.

The tropical cyclones product, launched in November 2020, achieved half of its target in 2020 and 2021 (one out of two for each year). Its target is set to increase from two to three in 2024. The drought and tropical cyclones results can be seen visually in Figure 9.

Figure 9: Outcome 2.1 – member states with drought/tropical cyclone insurance, 2020–24



ARC's flood product has yet to be launched. As such, it is unlikely to achieve its initial target of three (2022). This target also remains static for the years thereafter, also suggesting minimal ambition for growth in the coverage of the product after its launch.

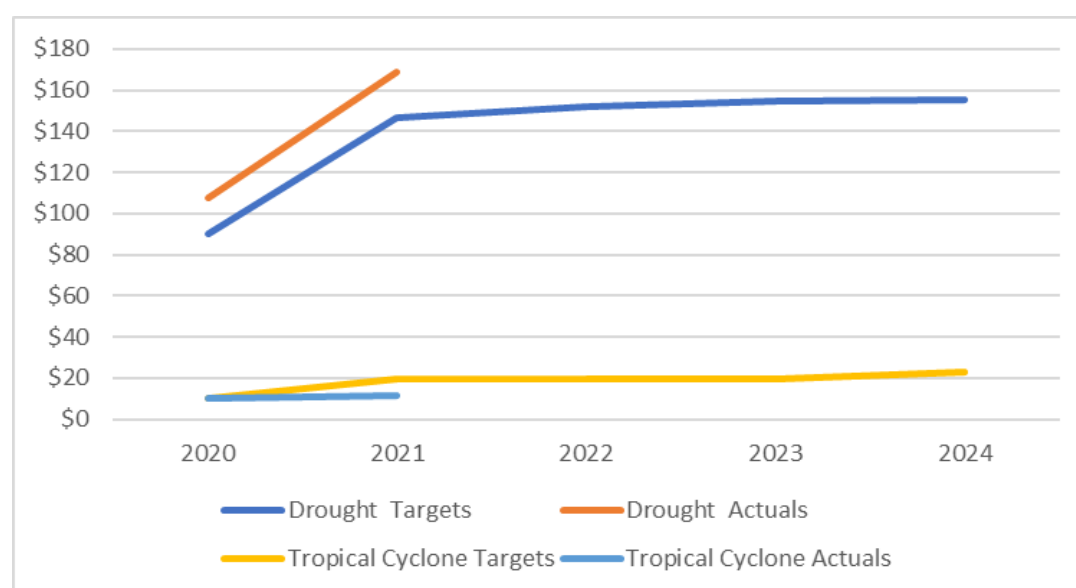
O&E is also still in development, having been piloted in Guinea and Uganda. It is due to launch in the second half of 2022. It therefore missed its target in 2021 (two) and is not likely to achieve its subsequent targets either.

As for the *monetary value* of ARC's insurance sales, the analysis draws on Outcome 3.1, which states: 'Total insurance coverage taken by member states and humanitarian actors (annually) disaggregated by peril (in USD)'. According to results reported against this indicator, ARC has generally exceeded its targets.

Table 8: Outcome 3.1 – total insurance coverage, 2020–24

Indicator	Baseline (2019)	2020		2021		2022	2023	2024
		Targets	Actuals	Targets	Actuals	Targets	Targets	Targets
Outcome 3.1: Total insurance coverage taken by member states and humanitarian actors (annually) disaggregated by peril (US\$) ³⁵ (in US\$ million)								
Drought	\$109.3	\$90	\$107.5	\$146.8	\$169.1	\$152.2	\$154.9	\$155.6
Tropical cyclones	0	\$9.9	\$9.9	\$19.4	\$11.7	\$19.4	\$19.4	\$23.1
Flood	0	0	0	0	0	\$12	\$12	\$12.1

Shown numerically in Table 8 and graphically in Figure 10, ARC's drought insurance coverage reached US\$ 107.5 million in 2020, 119% of its coverage target for that year. And in 2021, it reached US\$ 169.1 million, 115% of its target for that year. This indicator includes both member states' and humanitarian actors' insurance policies, though there is not a separate indicator monitoring humanitarian policy update.³⁶

Figure 10: Outcome 3.1 – total insurance coverage, drought and tropical cyclones, 2020–24

For tropical cyclone insurance coverage, ARC achieved its 2020 target (100%) and 60% of its 2021 target. The 2021 target is static in 2022 and 2023, and is raised for 2024, so significant increases in coverage are needed to achieve these subsequent targets.

³⁵ No monetary values were provided for the O&E product on this indicator.

³⁶ There is, however, an indicator monitoring the number of member states with ARC Replica policies

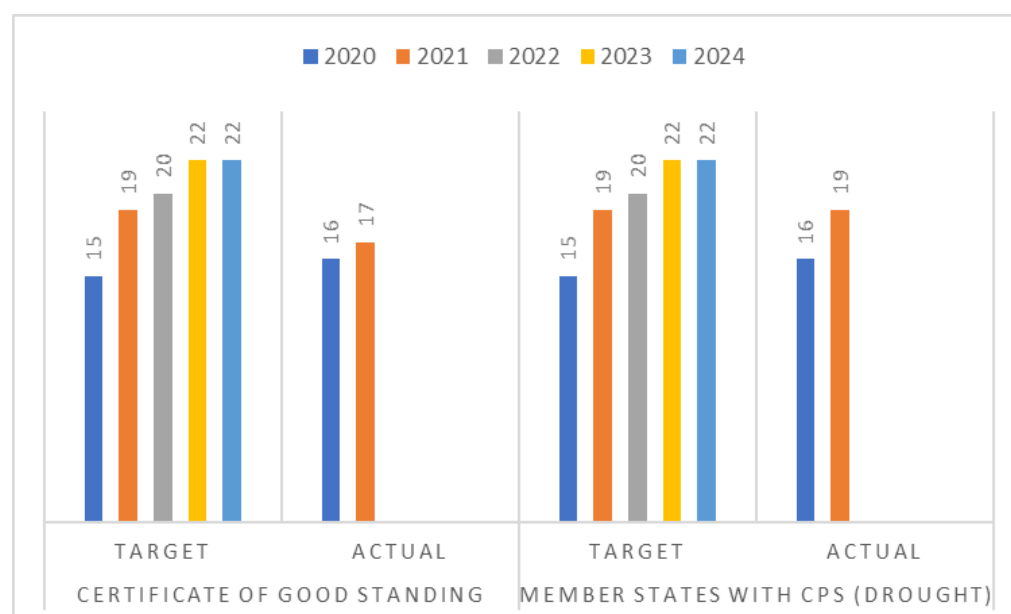
EQ3.1.2 Has support from ARC Agency to member states grown in line with expectations?

Summary: *Support from ARC Agency has grown in line with expectations in the logframe in relation to the number of member states with Certificates of Good Standing and valid contingency plans. However, there is a slower trajectory as regards converting this readiness into policy ownership, and thus a mismatch with Strategy expectations.*

Support from ARC Agency is quantified in this analysis through related logframe indicators (Figure 11). Outcome 2.3 monitors the number of ARC member states that have a valid Certificate of Good Standing. ARC exceeded its target by one in 2020 (16 from 15) but was short by two in 2021 (17 out of 19).

Outcome 2.4 monitors the number of ARC member states with valid contingency plans for perils covered by ARC (disaggregated by perils, though our analysis focuses on drought). Similar to the Certificate of Good Standing, the contingency plan results are largely on par with expectations, exceeding the target by one in 2020 and achieving the target (19) in 2021.

Figure 11: Outcomes 2.3 and 2.4 – Certificates of Good Standing and contingency plans, 2020–24



Thus ARC Agency's support to member states has indeed grown in line with targets. However, this analysis also throws into relief a gap between these aspects of insurance 'readiness' among member states, as supported by ARC Agency, and an evidently slower trajectory as regards converting readiness into policy ownership, as demonstrated by the analysis of policy uptake.

In addition to logframe targets, 'expectations' may also be assessed according to those articulated in the Group's Strategy. The Strategy's targets for drought policies are similar to those in the logframe, although they diverge slightly in that the Strategy is less ambitious.

The Strategy also states that its overarching aim is ‘to grow Ltd premium to \$100m by 2025’. The logframe monitors ARC’s ‘gross premium income’ (Output 3.4c), with its maximum target being US\$ 30.8 million for 2024. This is a US\$ 70 million gap over one year (2024 and 2025). It is not clear how these two are meant to align.

5.3 EQ3.2: Are ARC drought insurance and ARC Agency support valued by member countries and ARC Replica partners, and what are the main factors that determine that view?

Summary of findings

For the member states in the sample, respondents generally value ARC’s drought insurance highly, yet heavily caveat their high ratings with qualifications around receipt of payouts and difficulties with the customisation of the drought risk model to their countries’ needs.

Similarly, the main factor behind decisions to purchase drought insurance is the expectation of receiving payouts. A lack of previous payouts – when expectations are that there should have been payouts – is a factor in not purchasing insurance. The lack of payouts is also the only risk noted by countries buying insurance, potentially reflecting a misunderstanding about how insurance is intended to work.

Other factors reported to determine decisions to buy drought insurance include affordability (the price of premiums), confidence in the drought risk model, empowerment and ownership of countries in regard to managing risk themselves, product relevance for a country, and the geographic scope of the drought model.

Among other ARC products and services, ARC Agency’s support to government capacity building for drought modelling, contingency planning, and RTP is valued positively, with a mean score of 3.3 out of 4,³⁷ while technical support to choose the appropriate RTP is less so, at 2.5, and trust in the information provided by ARV scores an average of 2.75, i.e. where perceptions of drought do not align with ARV results.

Similarly, the model’s quantification of risk and support to early warning are even less valued, at 2.3. ARC’s overall offer of drought insurance with capacity building support is reported to be more valuable ‘in the round’, at 2.9. All scores that are less than 4 were explained by respondents as relating to an issue or challenge with the drought model.

ARC Replica is valued by ARC respondents as an opportunity to increase its scale and coverage to member states, while country-level respondents also value Replica’s increased coverage, and additional technical expertise. Global DRF actors feel that ARC has possibly not adequately recognised Replica’s benefit of increasing its coverage by making the most of the opportunities Replica represents (e.g. the logframe indicator for Replica policies has six as its baseline in 2019 and remains at six for its target in 2024), focusing too exclusively on its bilateral sovereign engagement with countries.

³⁷ Respondents were asked about the value they placed on ARC and its products and services, based on a scale of 1 to 4, with 4 being very valuable and 1 being of no value.

EQ3.2.1. Do ARC member states consider ARC drought insurance to be good value?

Summary: *Member states give high value to ARC's drought insurance but link this directly to receiving a payout when a drought occurs.*

Respondents from sampled countries³⁸ were asked to score the value that they place on various aspects of ARC's products and support. The scoring is based on a scale of 1 to 4, with 1 being low and 4 high. These scores were averaged across the respondents.

Firstly, respondents were asked how valuable they consider ARC's drought insurance policy to be for their country's ability to respond to droughts in a timely and effective manner. Responses from four of the five countries where this was quantified in the interviews equate to a mean score of 3.75, where 4 would be the highest value given. However, despite these positive responses, the scores are generally heavily caveated, most commonly around receipt of payouts and the customisation of ARV to a country's needs. For example, one country-level respondent gave ARC's drought insurance the highest possible value score (4) but then stated the following: *'In theory, it's really valuable. If it actually triggered a payout it would be really valuable.... I would have really liked it to work to be able to show the government that ARC is valuable and that they were wrong not to sign up [to ARC] this year.'*

Another respondent gave the highest rating, citing their receipt of two previous payouts as the reason for the high value. Another gave a slightly lower rating because of challenges with customising the RTP.

EQ3.2.2. What are the main factors that drive decisions to purchase drought insurance?

Summary: *The swift receipt of payouts and a sense of empowerment and ownership are key factors that drive decisions to purchase drought insurance, while the cost of premiums, confidence in the forecast model, and the lengthy and often onerous process of capacity building and customisation are seen as inhibiting factors in regard to purchasing insurance.*

When asked about the main factors or reasons behind purchasing drought insurance, country-level respondents consistently emphasised **receipt of payouts** as the key to 'demonstrate that ARC works'. Conversely, the absence of a payout is seen negatively, particularly when there are perceptions at a country level that drought has occurred and there is a need for support, coupled with expectations that an ARC payout would be made to address those needs. Indeed, when asked if respondents see any risk in purchasing ARC insurance, the only risk mentioned was not receiving a payout when a payout was expected.

The **price of premiums** is another factor that affects decisions to purchase insurance. Respondents noted judgements having to be made in the allocation of scarce resources, as

³⁸ Policy holding countries include Burkina Faso (Replica), Mauritania, Zambia, and Zimbabwe. Non-policy holders include Djibouti, Lesotho, Mozambique, and Somali.

in the example of Burkina Faso, which noted that security and Covid challenges had diverted resources (and political priorities) away from ARC insurance.

A function of not receiving payouts, another factor in decisions to purchase insurance revolves around **confidence in the drought risk model** behind ARV. Scepticism persists about the model, which one respondent described as a ‘satellite that doesn’t show what’s happening on the ground’. One respondent noted, ‘if the software is reliable then it’s [ARC insurance] convincing’. A number of respondents identified a diminishing confidence in the drought model. One respondent described this as a credibility issue which ‘threatens the credibility of the [ARC] institution’. Examples of current basis risks that exemplify this concern were noted in Burkina Faso, Niger, and Mauritania.

Other factors mentioned by some respondents relate more positively to a sense of **empowerment and ownership**, that ARC provides countries with ‘a way to take matters into our own hands’, while the fact that it is an ‘inter-African solution’ is also seen a positive factor – a mechanism for strengthening ‘inter-African relations and help with development’.

Among the countries that have not purchased drought insurance, three of the four echoed their desire to do so and that there was general consensus among their countries’ decision makers on doing so, but that the lengthy process for undertaking capacity building and customisation meant there were changes within their governments that required new advocacy effort and awareness raising among the new political leadership or administrations. Their affirmations of intentions to purchase were consistently based on positive views of ARV as an early warning system, timely arrival of funds, AU affiliation, risk transfer, and ARC Agency’s capacity building support in relation to responding to disasters.

These factors were largely affirmed in our online perceptions survey conducted among country representatives from 15 countries. Of these, 11 confirmed that they have purchased an ARC drought policy (current and previous policy holders). The three most common factors influencing them to take up a policy are:

- the payouts enable a much swifter and more certain response to drought;
- it ensures that the response is led by government instead of external actors; and
- the economic and social benefits of acting early are worth the cost of insurance.
- In a follow-up question regarding ‘other major factors for taking out a policy’, the most common response (75% of respondents) was: ‘The pooling of risk with other African countries as solidarity and to reduce insurance costs’.

For those countries without an ARC insurance policy in the online survey (four), the primary factors for not taking up a policy are overwhelmingly:

- the economic and social benefits of acting early are not worth the cost of insurance.
- the cost of insurance is too high.

Respondents from other ARC stakeholders mentioned reasons for not buying ARC drought insurance relating, firstly, to the **relevance of drought in a particular country**, whereas other peril coverage would be considered (e.g. flood, O&E, and tropical cyclones). Another reason that was cited was areas of the continent that are **geographically out of scope**, such that ARC simply does not offer the insurance to them (e.g. North African countries) or

countries that have greater **resource capacity**, such as Africa's middle-income countries (e.g. South Africa, Angola, Namibia, and Botswana), that may have greater budgetary scope and other options, such as credit.

EQ3.2.3. How valuable are specific products and services offered by ARC in the view of member countries?

Summary: Respondents generally view other aspects of ARC's products and services positively, but this is heavily caveated. Government capacity building is seen as positive, as is technical support for ARV customisation and for the contingency plans and FIPs, but confidence in the drought risk model and its quantification of risk, despite efforts by ARC to review and improve the model, is considerably lower.

When asked how respondents view other aspects of ARC's products and services, as with the responses to drought insurance, the scores given were generally positive. But these were heavily caveated. The various questions asked about ARC and respondents' view or valuing of these – rated on a scale of 1 to 4, with 4 being highest – are shown in Table 9. The scores have been averaged across the respondents for each question.

Table 9: Values given to ARC products and services

Value area	Mean score (n)
i. Building government capacity for drought modelling, contingency planning, and RTP	3.3 (3)
ii. Providing technical support for the customisation of ARV to countries' specific contexts and needs	3.75 (2)
iii. Providing technical support for the development of contingency plans and FIPs in order to remain in 'good standing' with ARC	3 (x1)
iv. Providing technical support to choose the right RTP for a country's needs	2.5 (x2)
v. Trust in the information provided by ARV	2.75 (x4)
vi. The model quantifying risk and supporting early warning for drought	2.3 (x5)
vii. ARC's overall offer of drought insurance combined with drought risk management support (capacity building, contingency planning, risk modelling)	2.9 (x5)
viii. Value of potential new insurance products for other disasters, such as floods, tropical cyclones, and O&E	2.75 (x4)

For **government capacity building for drought modelling, contingency planning, and RTP** (i), three countries yielded an average score of 3.3 out of 4 for ARC, equating to a high value. Challenges mentioned on this point relate to turnover in country-level TWGs that make capacity retention difficult. Another respondent was new to ARC and therefore identified that there was much still to learn, while another pointed to the usefulness of ARC's bulletins for helping raise awareness and understanding among policymakers and decision makers.

For **technical support around ARV's customisation** (ii), two countries yielded an average score of 3.75, citing that this is done in a 'conductive and well-structured way', with references made to local meteorological departments needing to develop their own systems

to test the model's results and not relying solely on its findings, while the other stated that ARC's engagement enables them to make their own decisions about customisation.

For the **provision of technical support for the contingency plan and FIP to remain in good standing** (iii), one country respondent referred to one training session positively but stated that much remains to be learned, scoring this at 3.

For **technical support to choosing the appropriate RTP** (iv), two countries yielded an average score of 2.5, one citing positive support to doing this and the other raising a concern that they have only one option, which is drought insurance, which is applicable in some parts of their country but not in others.

With regard to **trust in the information provided by ARV** (v), four countries yielded an average score of 2.75 out of 4. Explanations of these scores included identifying years of drought in a country but the model identifying that there was no drought and citing concerns that the satellite data are inaccurate relative to 'data on the ground', while another respondent cited 'lots of issues with it' and reported wishing ARC would be more active in addressing the issues with the parameters: *'This issue isn't new, and ARC have the resources and skills necessary to fix the tool. In the same way that ARC asks countries, when they receive a payout, to deliver it quickly to beneficiaries, we would like them to be as responsive in fixing issues with the tool. Their responsiveness is too slow.'*

As for **ARV's quantifying risk and supporting early warning for drought** (vi), five countries yielded an average score of 2.3. These scores were explained by reference to challenges with accessing ARV, such as reliance on internet connections and the programme's tendency to 'crash' after not being used for a month, that its focus on limited areas of a country is an issue, that other countries are seen to use the model alongside a different index that offers additional credibility, or simply the persistent reference to the fact that people perceive that droughts are occurring while the model does not reflect the same reality. As one respondent noted: 'I am not a technician so I don't know what the problem is, but there is a problem with ARV which really complicates things. It is not satisfying at all... I want ARC to amend their model. It is the only problem.'

When asked to score **ARC's overall offer of drought insurance with its capacity building support** (vii), responses were higher, at 2.9 from five countries. Positive responses consistently cited good experience with country engagement and capacity building. Explanations for all scores that were less than 4 cited issues with, or lack of trust in, the drought model.

And finally, considering **future insurance products for other perils that ARC is planning to develop** (viii), this received an average score of 2.75 out of 4 from four countries. Explanations for this were largely driven by country-specific relevance and interest. Where a country perceives drought as its primary risk, it places little value in other products and in fact often believes ARC should focus on improving its product and model for drought, rather than developing other products. Where a country feels that it would be able to use other insurance products, such as flood or O&E insurance, it provided a higher score.

EQ3.2.4. Is ARC Replica insurance considered to be good value? What are the main factors that determine that view?

Summary: Among ARC respondents, ARC Replica is viewed largely as an opportunity for ARC to increase its scale and coverage. This ambition, however, is not reflected in its logframe or the Group Strategy, which show no targeted increase for Replica coverage. There are also views that Replica is potentially inconsistent with ARC's priority of sovereign engagement, while country-level perspectives value the broader coverage and technical expertise that Replica partnerships bring.

Respondents from ARC tend to describe Replica as providing **an opportunity for ARC to increase its scale and coverage**, particularly for countries that are vulnerable to drought that are not able to afford the premiums, or where the premiums they can afford have limited coverage.

Curiously, neither ARC's logframe nor the Group's Strategy reflect ambition for ARC Replica's growth. The logframe's Outcome 3.6 indicator monitors the number of member states with Replica policies. The baseline is six, and the targets for 2021, 2022, 2023, and 2024 are all the same – six. No projected or planned growth is articulated in this indicator, which contradicts the view that Replica represents an opportunity for ARC to increase its scale and coverage. This is the same in the Strategy. This is also in contradiction with the Replica partners, who are keen to increase the number of countries in which they operate – WFP's vision is for 24 countries, while the Start Network aims for five.

Replica is also viewed positively as offering an alternative route to support affected populations when the government route is not viable. This could be in cases where the government is supportive of ARC but chooses not to buy an ARC policy (as in Burkina Faso) or where ARC is unable to make direct payments to countries that are under AU or other sanctions (such as in Mali).

There is a view among some stakeholders that ARC is not committed to using ARC Replica sufficiently to expand its scale because of ARC's prioritisation of sovereign-level engagement. In this view, Replica is a **decoupling of ARC from relating to member state governments only**, offering an alternative to this bilateral sovereign-level engagement. These responses pointed to a view within ARC that Replica is positive and helpful for broadening ARC's insurance coverage but that it is not meant to supplant ARC's sovereign-level engagement with its member states, which remains core for ARC's mandate and growth.

At a country level, respondents noted **Replica's ability to broaden insurance coverage and strengthen their local technical expertise**. Replica partners were also noted for helping to advocate with the country when they believe that the drought model has not accurately identified a drought. Respondents mentioned being able to strategically plan with the partners about how to approach distribution, ensuring this is collaborative and therefore more efficient and effective.

Among the global DRF actors, the view of Replica is consistently that it offers a useful way to **demonstrate the benefits of disaster insurance when it is able to be deployed to vulnerable households before a crisis intensifies**. A challenge for Replica is the view

among some DRM experts that ARC Agency is too focused on sovereign-level relationships and building government DRM capacity, rather than appreciating the value that Replica offers for achieving ARC's objective of reaching vulnerable households in need.

There is still admission among a number of the respondents regarding the 'trade-off' with country-level ownership that Replica may sometimes represent, and some have the view that ARC's focus should be on increasing government DRM capacity, rather than selling insurance. However, Replica partner respondents made clear that they too provide substantial technical support to the country teams they partner with to build capacity and collaboratively plan disaster responses in the event of a payout. Indeed, the increased technical capacity is a benefit of Replica that multiple country-level respondents highlighted.

Additional benefits of Replica that were mentioned include **contributing to the evidence base on ex-ante DRM planning and financing**, alongside the expanded insurance coverage, all of which contributes to partner objectives of reaching vulnerable households in crises and preserving resilience. And some respondents consider this to be key, even if there are times when this might diminish country ownership of a DRF tool.

5.4 EQ3.3: Is ARC undertaking activities that increase interest in, and potential demand for, services among member states?

Summary of findings

ARC is certainly undertaking activities that are *intended* to increase interest and demand among its member states, and there is an ambitious articulation of approaches to doing so in ARC's recently refreshed Strategy. However, evidence from a variety of respondent types – including from within the ARC Group – suggest that ARC may not be carrying out the *right* types of activities.

At the country level, the engagement by ARC (Agency) is seen positively, with the staff seen to be very competent and responsive to requests, but this is often clouded by the lack of trust in the risk model. Regional respondents noted that partnerships have been fostered, but with little in the way of tangible results to show for them.

Despite the extensive articulation of partnership plans and objectives in the ARC Strategy, there have been few partnership-based results in ARC's key areas: ensuring confidence in the forecasting model, improving communication to member countries about ARC's successes, and bolstering efforts to make insurance more affordable. Views within the ARC Group are generally critical of ARC's approach to pursuing partnerships in practice, such as the lack of an organisation-wide approach, and being too *ad hoc* and based on the interests of individuals, and there being a view that ARC might be spreading itself too thinly among a broad range of partners.

Successes were noted in the way partnerships have been used for premium subsidies, and this is seen as an area that should be expanded. However, premium subsidies have not, so far, helped to drive a systematic increase in the total value of premiums paid by member states themselves.

EQ3.3.1. What types of outreach and marketing activities has ARC used to engage member states to take up ARC's capacity building programme and insurance products? Do these outreach activities appear to be effective?

Summary: ARC aims to be demand-driven in the products it develops and in the countries it engages with, placing product development at the forefront of its efforts to generate demand. However, its marketing and outreach activities are seen to be inadequate. The low level of new country involvement in ARC is seen to exemplify the lack of a clear strategy for expanding into new countries, with a focus instead on strengthening efforts in existing ones.

ARC places product development at the forefront of its efforts to generate demand.

For example, the ARC Group Strategy articulates the development of demand-driven insurance products as a core aspect of ensuring its products offering is 'revised to meet the needs of member states based on feedback received', and states that while the focus for this planning period (2020–24) is on drought, tropical cyclone, Flood and O&E products, ARC 'will continue to consider any new products as dictated by the needs of our Member States' (ARC Group Strategy, 2020, p. 22).³⁹

Examples of specific product revisions and developments in response to country-level demands include the following: the possible use of alternative indexes for the drought model; customising drought products for sub-national policies; offering coverage for shock-responsive social protection programmes; offering discounts for countries that have not received a payout for a certain number of years; the roll-out of the flood and O&E models; and operationalising the Extreme Climate Facility (ARC Group Strategy, 2020, p. 22).

Other elements discussed within the Strategy in regard to responding to demand include the following: introducing co-insurance and localised insurance (ARC Group Strategy, 2020, p. 30); a communications strategy that is a 'demand-based approach to transformational communication' to advocate for ARC's vision, mission, and work at national levels (ARC Group Strategy, 2020, p. 43); and enhancing member state participation through 'political advocacy and constant dialogue' (ARC Group Strategy, 2020, p. 28).

The Strategy's objective of increasing product offerings was also reiterated by Agency respondents, who identify the need to develop more products as a way of responding to member states' needs.

In cases where 'demand' was seen to be marginal because of the relevance of a product or the needs of a country, ARC is responding by pursuing alternative options for product development. For example, some of the middle-income countries in southern Africa have a greater financial capacity to access contingency funding or financial markets that are able to respond to large-scale farmer needs. In such cases, ARC is looking to sub-sovereign options to partner with local insurers.

³⁹ ARC Group Strategy, 2020–24 (2020), p. 22.

Respondents within the ARC Group vary in their views about the activities ARC undertakes to build demand. Respondents from ARC Agency tend to believe that demand is not an issue – **there is a lot of demand**. The **questions are whether the products are pertinent, the policies affordable, and the premiums competitive, and whether the model is sufficiently customisable**.

This is underscored by the view that if countries had more money they would be more likely to purchase policies.⁴⁰ Another view is that one constraint on generating interest is the limited understanding of insurance among member states and incorrect perceptions of how payouts work. Yet there was little mention by respondents of how efforts are being made to rectify these constraints on uptake.

There is also the view that **ARC Agency's approach to country engagement is not as effective as it should be**. For example, some respondents within the ARC Group noted the need to bring new countries into the risk pool, and were critical of how the risk pool has stagnated in recent years, with little to no growth from new countries, and were critical that the majority of ARC Agency's efforts are directed towards supporting existing policy holding countries, rather than gaining new policy holders.

ARC's top-down approach was criticised by some respondents for being too 'diplomatic' and political, and as difficult to convert into an insurance purchase. This political approach to country engagement is seen to be very different than market norms for selling insurance, which typically seek to involve the people and stakeholders that use the products. The political entry point is also seen as an 'agenda alignment issue', with challenges in government turnover and a lack of interest in and understanding of policies designed to protect people from disasters in the future, rather than offering immediately tangible (and more politically advantageous) results.

Respondents also noted challenges in the division of roles between ARC Ltd and ARC Agency because **the insurer (Ltd) has no control over the way its product is sold** (through Agency). However, there is a fair level of consensus among the ARC Group respondents that its efforts and activities to foster uptake of its products and services could be improved. This was not raised as more needing to be done, but that what is being done needs to be more strategic and coherent across the Group, rather than divergent between its two entities.

Some of the donor views of ARC's country engagement are less positive. When speaking of the relationship between ARC Agency's efforts to build capacity and ARC Ltd's role in holding the insurance product, one partner stated that ARC's approach has an inherent conflict of interest between building government capacity around DRM and DRF while selling its products exclusively: *'[ARC] plays both the role of insurance company and insurance agent. That separation of role would help ARC's ability to attract and really begin to market its products without being seen to have a conflict of interest.... An honest broker would be someone who built the capacity of the governments to vet the insurance products available and select the appropriate one.'*

⁴⁰ However, these views appear to diverge from those expressed on subsidies, as reported at the end of this section.

At a technical level, the **country engagement by ARC (Agency) is viewed largely positively**, with the staff seen to be very competent and responsive to requests, and their provision of information and awareness about their products seen to be sufficient.

The issue that arises once again in these responses is the **lack of trust in the risk model**. So even in the context of respondents reflecting positively on ARC Agency's efforts at engagement, support, and capacity building, the lack of reliance and trust in the drought risk model overrides the positives.

When asked about ARC's efforts to build demand for its products and services, another partner cited the issues of how long its product development processes have taken, resulting in decreased interest, rather than increased interest, as well as credibility damage around the risk model. A faster pace of development and response was noted as being critical for ARC to generate interest, particularly in the light of the increasing frequency and scale of perils faced by African countries.

The inputs provided by DRF experts underscored the need for ARC to shore up the technical aspects of its risk models and to pursue concerted efforts to build confidence in the underlying models for its insurance products. Some experts exhorted ARC to focus on the three perils it has committed to, to establish and strengthen these solidly, and to build their credibility by demonstrating experiences that can be showcased as successes; this is viewed as considerably more important at this point for ARC than continuing to 'chase new products'.

The other dimension of enhanced effort needed from ARC is support for **premium subsidies** and ensuring that the products are fit for purpose in their market, and that partnerships and mechanisms are sought to bridge any gaps between the financial viability of ARC's products and product affordability for member states (see more on subsidies at the end of this section).

EQ3.3.2. Is ARC working effectively in partnership with other organisations in order to build demand?

Summary: ARC's approach to partnerships was criticised for lacking coherence, needing better communication around ARC's successes, and needing to improve confidence in the drought model. Successes were noted in the way partnerships have been used for premium subsidies, and this is seen as an area that should be expanded. However, premium subsidies have not, so far, helped to drive a systematic increase in the total value of premiums paid by member states themselves.

Within ARC Group documentation, the Strategy articulates ARC's vision for partnerships: **'to develop and maintain collaborative efforts with institutions in Africa and around the world that will hone ARC's efforts at building an effective and efficient system that respond to climate change-related shocks and other natural disasters'** (ARC Group Strategy, 2020, p. 37).

The efforts the Strategy describes for undertaking this vision include the following: re-engaging with the World Bank 'to find opportunities for collaboration...that ensure that efforts towards disaster risk management are complementary rather than competing'; partnering

with local and regional insurance companies to develop national capacities in DRF; and entering into partnerships within the United Nations system to provide TA and financial buffers pending countries' full uptake of insurance.

The 'Guiding Principles of Partnerships' are positioned at three levels: partnerships with policymakers, partnerships with financial institutions, and partnerships with research institutions and technical experts (ARC Group Strategy, 2020, p. 38). On the first level, with policymakers, the aim of this is to 'increase advocacy and ensure ARC's participation in Africa is seen as a strategic macro-economic development instrument'. This suggests a remit that potentially exceeds ARC's initial mandate 'to improve states' capacity to plan, prepare and respond to extreme weather events and natural disasters' (AU, 2012).

A potentially supportive element for policy partnerships is the introduction of the African Disaster Resilience Forum, which aims to be 'a climate and natural disaster risk policy dialogue platform' which would 'bring together the most relevant actors from all sectors...in an environment of trust and openness to have purposeful policy conversations on Africa's climate and natural disaster risk problems' (ARC, 2021b). However, the forum has not yet been operationalised.

Financial partnerships are mentioned and listed, with these having the aim of supporting country premium payments, among multiple other aspects of 'supporting ARC's public goods offerings related to building member states' disaster resilience' (ARC Group Strategy, 2020, p. 38). Similarly, the Strategy describes 'incentives' to member states as a 'way to ensure that the financial burden on governments is lessened', and that ARC will 'provide incentives through strategic partnerships with the aim of supporting member states' *sustainable* access to the insurance pool for a minimum of 15 countries' (ARC Group Strategy, 2020, p. 29).

Despite these strategic articulations of ARC's partnerships approach, **respondents within the ARC Group** were critical of ARC's approach to pursuing partnerships in practice. Criticisms relate to the view that, firstly, ARC has not pursued an organisation-wide approach: its approach has been more *ad hoc* and based on the interests of individuals within the organisation. And, secondly, that ARC is trying to spread itself too thinly among a broad range of partners that; the result is too scattered and not sufficiently focused on addressing what is needed for ARC to grow its risk pool. Indeed, one respondent noted that ARC's existing products and partnerships are sufficient – these do not need to be *increased*, they need to be *improved*.

Respondents from ARC's regional partners described the premise of their partnership as being, firstly, based on their affiliation with the AU – 'sisters from the same mother'. The key result of these partnerships thus far has been increased awareness among member states of ARC and its offer. However, a consistent gap these respondents mentioned is that ARC could better market the stories of its successes, to help showcase its benefits.

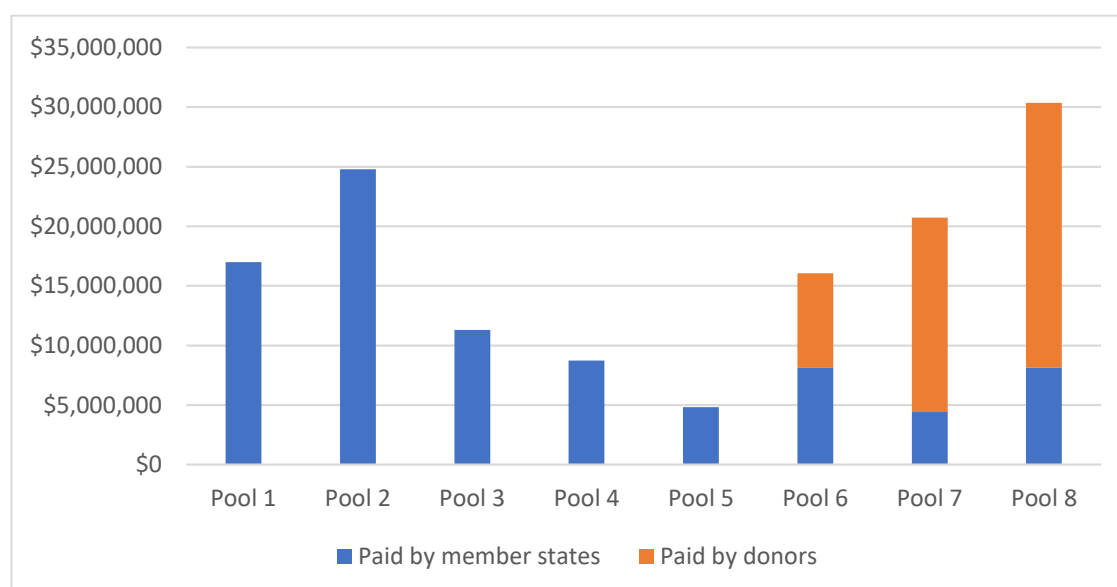
Three areas recurred in partner, donor, and DRF expert responses to these questions regarding ARC's activities for building demand and interest. The first and fundamental point is the need to **ensure countries can have confidence in the technical model** that underpins ARC's insurance product. Country-level respondents reiterated this point – even where they provided positive reflections on capacity building and ARC's affiliation with the AU.

The second area was the need for **improved communication from ARC about the successes** that the full ARC offer has had, including increased government capacity, rapid payouts from ARC, and delivery to vulnerable households. Multiple respondents noted this as a key area that ARC needs to improve on to enable better awareness and understanding not only of what ARC can offer but also what wider DRM and DRF planning can provide to mitigate the impact of disasters.

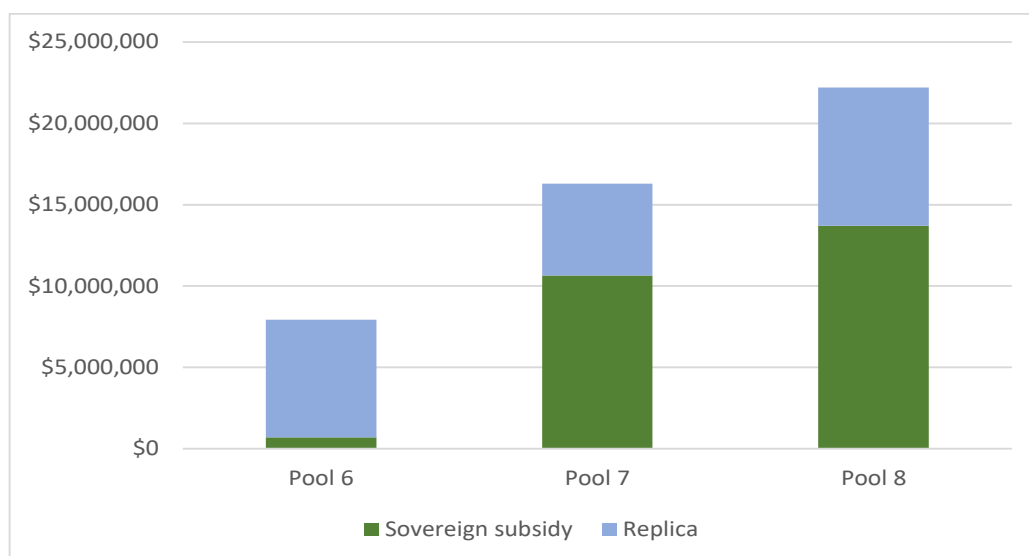
The third area was the need for support for **making insurance more affordable**. In the views of many respondents, premium subsidies are the best and most fundamental way to use partnerships to help build demand for and interest in the ARC products. Advances have been seen with ADRiFi in the AfDB, and more recently with forecast-based financing with the International Federation of Red Cross and WFP. This can be built on through more advocacy in the international community and among donors, to support premium subsidies.

In ARC's eight risk pools to date, premium subsidies and ARC Replica both started in Pool 6, with premiums paid by donors constituting 49% of that pool's total value. This grew in the next two risk pools to 79% and 73%, respectively, constituting a significant share of each pool's premium values (see Figure 12). The total value of premiums financed by the countries in each pool has declined overall, has been variable, and has not exceeded US\$ 10 million since Pool 3. There is no sign that demand from sovereign governments, in terms of payments from their own budgets, has grown in recent years.

Figure 12: Premiums paid by risk pool and source of finance



When considering the three risk pools since the introduction of premium financing, subsidies for sovereign policies accounted for only 9% of Pool 6's total subsidies, with Replica constituting 91% of the total premium subsidies for that pool. In Pools 7 and 8, subsidies for sovereign policies increased substantially, accounting for 65% and 62% of total subsidies, respectively, with the remaining share of subsidies provided to Replica partners (see Figure 13).

Figure 13: Premium contributions by donors: subsidies for member states and Replica

These figures demonstrate the significant impact that subsidies have had on ARC's risk pool growth since subsidies were introduced. Over the period, total donor contributions to premium subsidies have grown, both for sovereign subsidies and for Replica, but with sovereign subsidies increasing more substantially.

Premium payments by donors have been essential to the overall growth of premium income. They are intended as short-term measures to support and encourage member states to institutionalise the payment of premiums, and so to provide a reliable longer-term market for ARC insurance. While recognising the possible effects of the Covid pandemic, the fact that aggregate country contributions are not increasing raises concerns about whether this will happen. Donors may need to consider if longer-term subsidies should be an ongoing component of their support to ARC and to DRM in the region.

5.5 EQ4: What is the likelihood of the longer-term sustainability of the ARC Group?

Overall finding: ARC's longer-term sustainability is uncertain. There is a lack of clarity as to how ARC views its long-term funding solutions. ARC Ltd's growth strategy appears overambitious. In the near term, the Fundraising Strategy identifies a US\$ 68 million funding gap for ARC Agency, to be filled through donor support. However, donor support to ARC Agency is fragile due to perceived challenges with transparency and responsiveness, as well as concerns about the effectiveness of the division of responsibilities between Agency and Ltd in the product development sphere, amongst others. There is, however, an opportunity to rebuild confidence since there is still considerable support for the value of *ex-ante* insurance products and disaster preparedness capacity building. There are generally positive views that ARC's mandate is clear, but there are also concerns that it lacks a detailed strategy to deliver to it. Stakeholders identified various strengths but also a number of significant concerns around ARC's institutional framework and capabilities.

The following sub-sections explore the likelihood of the longer-term sustainability of the ARC Group. The analysis looks at two sub-questions about *ARC's resourcing and whether this provides the right basis for sustainability (4.1)*, and *whether ARC's institutional framework provides the right basis for longer-term sustainability (4.2)*.

5.6 EQ4.1: Does ARC's resourcing provide the right basis for sustainability?

Summary of findings

Donor support to ARC Agency is fragile. The refrain repeated by a number of donors that have supported ARC from its inception is consistent: they no longer provide funding to ARC Agency because they have lost confidence in it due to challenges with transparency and responsiveness from ARC and the ineffectiveness in the division of roles between Agency and Ltd, among other issues. However, they still believe in the important role of the *ex-ante* insurance products that ARC Ltd provides and they have switched their expenditure to premium financing or premium purchases.

Apparent inconsistencies between ARC Ltd's Inclusive Growth Strategy and the Group's Fundraising Strategy call into question the Group's approach to establishing income streams apart from donor support. ARC Ltd's strategy is to diversify into different areas of revenue (reinsurance and retrocession) and new product offerings (micro and meso products), which may be sound, but the rate at which ARC Ltd proposes to do so does not appear plausible. The Group Strategy's emphasis on delivering quality products to sovereign governments as its means of reducing dependency on donor funding raises concerns given the trend of recent risk pools being heavily subsidised.

Perceptions within ARC Agency are generally positive about the current organisational setup and structure, while views from outside ARC Agency are considerably more critical of its capabilities and approach to staffing. The general approach to country engagement is criticised for the significant levels of effort applied to capacity building on an ongoing basis, the onboarding process for countries for being complicated, onerous, and time-consuming, and ARC's poor management of its donors, many of whom expressed potential interest in continuing funding but not without 'some degree of transformation'.

EQ4.1.1. To what extent and under what circumstances will ARC donors continue to support ARC in terms of capital, ARC Agency costs, and premium subsidies?

Summary: Donor concerns relate to a number of areas: the fact that for some time ARC Agency needed to establish a viable and diversified funding plan but had not done so; a lack of transparency around financial reporting on ARC's part; and a lack of responsiveness to requests from donors on spending and funding planning. Donors expressed their continued interest in ARC's premise of supporting countries in their efforts to manage disaster risks. That commitment is shown through their pivot towards ARC Ltd and measures that enable donors to continue supporting countries more directly (through premium subsidies) or via partners (ARC Replica).

The refrain repeated by donors that have supported ARC from its inception (UK, USAID, KfW, SDC) is consistent: they no longer provide funding to ARC Agency because they have lost confidence in it. However, they still support the idea of the *ex-ante* insurance products that ARC Ltd provides and they have switched their investments to ARC Ltd, in the form of capital, premium financing, or premium purchases (ARC Replica).

The disgruntled views among this group of donors relate to the following: the fact that for some time ARC Agency needed to establish a viable and diversified funding plan but had not done so (until very recently – a Fundraising Strategy was approved by the Board in March 2022); a lack of transparency on ARC's part about how donor funding has been used; and a lack of responsiveness to requests from donors on spending and funding planning.

ARC Agency's current funding base is propped up by recent donor arrivals yet is still limited in its timeline, presenting an imminent threat to ARC Agency. Several donors voiced concerns about the continued viability of the Group as a whole if ARC Agency is unable to gather sufficient funding, potentially jeopardising ARC Ltd's continuation.

Donors clearly expressed their continued interest in ARC's premise of supporting countries in their efforts to manage disaster risks. That commitment is shown even in the midst of donor fatigue in regard to ARC Agency, through their pivot towards ARC Ltd and measures that enable donors to continue supporting countries more directly (through premium subsidies) or via partners (ARC Replica). Indeed, ADRiFi is viewed by some donors more positively than ARC Replica for being 'closer to governments' and therefore contributing to fostering ownership of the insurance at the country level, even if its premium payment is subsidised.

The breakdown in relations between ARC Agency and donors appears to be the result of misaligned expectations and failed communications. A more realistic timeline for achieving sustainability, coupled with a concerted effort to diversify the donor base, while committing to a consistent reporting cadence, with agreed parameters on budget spending and forecasting, may provide a renewed basis on which (some) donors will agree to continue funding Agency. But this will be with minimal tolerance for digression from these parameters.

Some donors admitted their own culpability to some degree – that they have not spoken with a sufficiently unified voice to ARC but have related too bilaterally, which has resulted in the fragmented relationship model that ARC operates with. This is an area that was noted as showing improvement, but donor respondents believe that improvement should be spurred by ARC, to ensure that the donors respond to its leadership and vision and strategy. But this has not been present and the donors have responded first with concern and then with attrition. In short, donors see a strong need for a clear business plan going forward (the current Strategy does not suffice for this, as it is too wide-sweeping and overambitious), and better management of donors and ARC's responses to donors.

EQ4.1.2. What is the likely contribution of ARC's growth plans (the 2020 Inclusive Growth Plan and subsequent developments) to sustainability?

Summary: It is currently unclear how ARC's growth plans will contribute to ARC's sustainability. Inconsistencies are noted in ARC's growth and fundraising strategies,

with the former focusing on new market environments and entirely new product offerings, while the latter retains donor support and sovereign premium payments as its base. There are reasons for concern not only about the inconsistencies, but also about the viability of what each strategy proposes.

The overarching aim of ARC Ltd's Inclusive Growth Strategy is 'to grow ARC Ltd premium to \$100 million by 2025 by offering new product lines (tropical cyclone and floods) and diversifying into non-sovereign business' (ARC Group Strategy, 2020, p. 45). Indeed, 'inclusive' in this case means covering both sovereign and non-sovereign clients. Of the US\$ 100 million planned for ARC Ltd, only US\$ 10 million is planned to originate from drought product premiums (the growth plan states that the flagship drought product is 'below the efficiency line' and its business model is unsustainable). A further US\$ 20 million is expected to come from new products and supranational policies.

The bulk of the US\$ 100 million is expected to come through retrocession (US\$ 30 million) and reinsurance (US\$ 30 million). ARC Ltd is currently financed through three primary sources: premiums, including subsidies, which represent more than half of premium income; capital investments;⁴¹ and an investment portfolio based on ARC Ltd's capital. The proposed structure for the forecast US\$ 100 million budget would represent a substantial restructuring of ARC Ltd's income within a very short amount of time (within five years of the strategy's creation, and three years from the time of this evaluation).

ARC would need to compete in a challenging market environment, which is very different from the approach it has had with governments. While engaging in reinsurance and retrocession may provide an alternative income source for ARC Ltd, the strategy's aim that this will form the basis of its income within only a few years appears to be unrealistically ambitious.

Expanding into these new markets based on new product development represents additional risk. The ARC Group has not shown itself to be able to rapidly and effectively develop new insurance products (see earlier discussions on the protracted development of its flood insurance product). These new products, once developed, would be sold in largely new markets, requiring additional effort to engage and sell the products. The strategy also states that ARC will develop meso-, micro-, and supranational-level products, which are entirely different to its existing portfolio of products and would require a different set of capabilities than it currently holds. This again raises concerns about the realism of the strategy over its intended timeframe.

Respondents' views were often divergent on these questions of the viability of premium payments as a key source of income for the ARC Group, noting the growth strategy envisages premium payments as funding only a small portion of the overall planned income (see EQ3.1). One respondent emphasised the fact that sovereign insurance remains ARC's core business, with micro- and meso-level products being complementary. The details about how the growth would be delivered were not clarified during the interviews.

⁴¹ In 2014, the UK and Germany provided US\$ 50 million each to capitalise ARC Ltd; this is a 20-year interest-free loan, repayable in 2034.

ARC's newly released Fundraising Strategy (January 2022) identifies a funding gap of US\$ 68 million over the next five years (2022–26) for ARC Agency. The plan for filling this gap is entirely through donor funding:

'For its 2022-26 five-year funding gap of USD 68 million, ARC Agency will focus on continuing its funding partnerships with current core donor partners whilst at the same time, reviving relationships with previous donors and exploring opportunities with potential new donors.' (ARC, 2022, p.12)

The Fundraising Strategy says little about how premiums could become ARC's funding basis in the future, except for stating that 'The ARC Group will continue to require significant donor support over the next five years. Thereafter, the intention is to reduce dependency on donor funding by consistently delivering quality solutions that are increasingly valued by sovereign governments'.

The inconsistencies between ARC Ltd's Inclusive Growth Strategy and the Group's Fundraising Strategy call into question the Group's approach to establishing income streams apart from donor support. While ARC Ltd's strategy of diversifying into different areas of revenue may hold potential, the rate at which it is proposed does not appear plausible. The Group Strategy's emphasis on delivering quality products to sovereign governments as its means of reducing dependency on donor funding raises concerns given the trend in the recent risk pools of being heavily subsidised, while reinforcing the apparent inconsistencies between the two approaches.

EQ4.1.3. Are there any constraints on sustainability in relation to ARC's capabilities?

Summary: Responses across the ARC Group varied in their views of ARC's capabilities as they relate to ARC's sustainability. ARC Agency was criticised for being short-term-oriented and reactive at times, while its approach to country engagement and the long onboarding process is seen to be inefficient and ineffective in regard to acquiring new clients.

Respondents were asked whether they thought there were any organisational constraints on ARC's sustainability. Within the ARC Group, respondents varied in their views on this.

Perceptions within **Agency were generally very positive about the organisational setup and structure**, praising its senior leadership and staff's technical skills. **Some skill gaps** were noted by some respondents, particularly in technical areas, such as forecast modelling. This was largely explained by reference to short-term contracting for staff, which makes it difficult to attract highly qualified expertise. Few senior consultants wish to accept a one-year contract in South Africa when they are being offered multi-year contracts in the US or Europe. This is seen as likely to be exacerbated by the move to Côte d'Ivoire, which several respondents think is even less attractive to critical skill holders.

With regard to financial viability, there were criticisms of the tendency to be **short-term-oriented and reactive**, and an acknowledged need to move away from 'knee-jerk reactions to a more long-term approach'.

Some views within the Group and among other stakeholders see **ARC Agency as resembling a public sector institution**, with recruitment being based on networks – ‘recruiting people like themselves rather than with specific skills sets’ – and the result is seen to be an organisation that is unable to adapt to market needs and to maximise efficiencies. Despite these perceptions in some instances, ARC Agency confirmed their use of WFP-based protocols for recruiting and hiring staff.

The general organisation’s **approach to country engagement** was also criticised as being unsustainable. This relates to the significant levels of effort applied to capacity building on an ongoing basis, often responding to gaps in country-level capacity as they emerge due to staff turnover, rather than ensuring capacity in client countries is embedded and institutionalised, together with a form of ‘graduation’ whereby countries no longer receive capacity building support after a certain number of years.

Criticism was levelled at the entire **onboarding process** for countries – ‘client acquisition’ – that is seen to be exceedingly complicated, onerous, and time-consuming, and vulnerable to many different steps of government approval, political transitions, and priority changes. These dynamics within the sovereign approach have contributed to ARC Ltd seeking opportunities at sub-sovereign levels.

The further area of criticism relates to **donor relations**. Several donors noted still being interested in funding ARC Agency, but that specific and serious changes are needed for them to consider this seriously: budget cuts, greater transparency about spending and other information requests, a diversified funding plan, and greater accountability for ARC Agency. There is an overall view that ARC does not have the right capabilities to adequately manage its donors, nor its responses to its donors.

5.7 EQ 4.2: Does ARC’s institutional framework provide the right basis for longer-term sustainability?

Summary of findings

There is a generally positive view among all respondent types that ARC’s mandate is clear, with only a few exceptions to this. However, ARC’s plan or strategy to achieve its mandate was noted as being less clear.

With regard to sustainability constraints in ARC’s institutional arrangements, there are consistent views among various respondent types that the largest threat is the division of responsibilities between ARC Agency and ARC Ltd.

Among ARC’s key stakeholders, there is generally very positive support for and buy-in of the principles that ARC was founded on. Among member states, the biggest threat to their buy-in is their weakened confidence in the risk model. Among ARC Group respondents, the division between ARC Agency and ARC Ltd is seen as problematic. For donors, support for ARC’s premise and objectives is enthusiastic, but it is consistently followed up with a disclaimer that ARC’s execution of its objectives and mandate is weak

EQ4.2.1. To what extent does ARC have a clear and coherent mandate, mission, long-term strategy, short-term strategy, and prioritised plan of action?

Summary: *There is a generally positive view among all respondent types that ARC's mandate is clear. However, even when respondents stated that the mandate is clear, this was often followed up with caveats that ARC's plan or strategy for achieving its mandate is neither clear nor feasible. Some respondents noted that ARC is increasingly endeavouring to achieve more than its initial mandate, expanding into broader DRM arenas. The organisational division between ARC Ltd and ARC Agency is seen as a further hinderance to ARC's ability to achieve its mandate.*

The treaty that established ARC did so as a 'Specialised Agency of the AU to help member states of the African Union to improve their capacities to better plan, prepare and respond to extreme weather events and natural disasters' (AU, 2012, p. 3). Its objective is 'to assist member states to reduce the risk of loss and damage caused by extreme weather events and natural disasters affecting Africa's populations by providing targeted responses to disasters in a more timely, cost-effective, objective and transparent manner' (AU, 2012, p. 4).

There is a generally positive view among all respondent types that **ARC's mandate is clear**, with only a few exceptions to this. However, even when respondents stated that the mandate is clear, this was often followed up with **caveats that ARC's plan or strategy for achieving its mandate is neither clear nor feasible**.

Some of the feasibility constraints that were cited relate to the following issues: **the 'volatility' of the environment in which ARC intends to sell its products** (countries not having dependable budgets to buy disaster insurance); whether ARC is adequately responding to country needs (product diversification and accurate customisation); limited awareness of DRM/DRF and how insurance can be used to manage disaster risks (countries were noted as often preferring to manage disasters *ex-post* rather than *ex-ante*); and the mistrust that has grown in recent years due to delays in, or a lack of, payouts because of modelling parameters.

A second area noted as a feasibility constraint was ARC's **lack of a strategic approach or plan for achieving its mandate**. This includes, for example, ARC not having an identifiable strategy for prioritising countries for engagement (country strategy papers are under development, but none are complete yet and it is not clear if they will address this adequately and comprehensively), and the fact that this has largely been undertaken on a case-by-case basis.

This pertains to how countries are selected for focused attention (for example, establishing a MoU between ARC and a country to commence capacity building activities for a particular peril) and the details of how ARC engages within a country to build political support or technical capacity for a product. This point was made in relation to several levels, including in regard to engaging with non-member states, as well as member states that do not have insurance.

Moreover, the evaluation team was unable to identify any specific business development plans or market surveys for new products ARC is developing, which begs the question as to how ARC converts broad ‘demand’ for a product, determined from its Conference of Parties, into practical steps towards a product’s development.

The **organisational division between ARC Ltd and ARC Agency** is seen as a further hinderance to ARC’s ability to achieve its mandate, with noted ‘tensions between Ltd and Agency because both have relationships with clients on different levels’, and the division of labour between the two is seen as not always being clear to member states. The fact that ARC Agency has engaged in capacity building support in some countries for over eight years is seen to be excessive, raising questions about ARC Agency’s effectiveness in such cases and the need for countries to ‘graduate’ and for ARC to redirect efforts towards onboarding newer countries.

Finally, some respondents, both within and outside of ARC, raised concerns about the fact that **ARC is increasingly endeavouring to achieve more than its initial mandate, expanding into broader DRM arenas**. This raises questions related to ARC’s capacity to do this when it is evidently struggling to achieve its narrower mandate and objectives within its existing scope of work. Some noted this as being a function of donor priorities that at times pull ARC into different directions, yet it is still seen to be ARC’s role to manage these demands better.

EQ4.2.2. Are there any constraints on sustainability in relation to institutional arrangements?

Summary: ARC’s affiliation to the AU is generally seen as positive, due to the exposure and credibility that this lends ARC. However, there are also negative aspects to being treaty-based, including the laborious nature of being governed by a Conference of Parties. ARC’s administrative association with the WFP is seen by some to be onerous and expensive, inhibiting ARC’s ability to operate more freely and responsively. But the most contested issue in ARC’s institutional arrangements relating to its sustainability is the division between ARC Agency and ARC Ltd.

Respondents were asked a series of questions to ascertain any perceived constraints on ARC’s sustainability as they may relate to institutional arrangements.

Firstly, **ARC’s affiliation to the AU** – established by AU treaty as a ‘Specialised Agency’ – is seen generally as positive, due to the exposure and credibility that this lends ARC, which was particularly important in its early years. However, ARC’s relationship with the AU Commission is not fully defined nor typical of AU agencies and does not include funding commitments from the AU or formal reporting lines from ARC. There are also some negative aspects to the affiliation and ARC’s overall governance structure. These include the laborious nature of being governed by a Conference of Parties that is required for decision-making at several levels, the extensive consultations required in decision-making processes, and the limitations to increasing growth amongst countries that have not signed the treaty (once the treaty comes into force in March 2023).

Similarly, **ARC’s administrative association with the WFP** is seen by some to be onerous and expensive, resulting in unnecessary procurement delays and other bureaucratic hoops

without which ARC would be able to operate more freely and responsively. It also contributes to high staff remuneration costs and, as reported by ARC, ARC's inability to report on its expenditure in detail. There are also indications that some member states may view the association with WFP sceptically, potentially pulling ARC away from its priorities in Africa, as an African organisation, and towards the agenda of an international multilateral organisation.

However, there are management perspectives within ARC that disagree with the WFP detractors: these cite more benefits than costs from the relationship, that other outsourced administrative costs would be comparable, and that the accountability requirements from WFP helped ARC build credibility in its early years, which otherwise would have been difficult to establish. Similarly, other donor respondents mentioned enhanced fiduciary confidence due to the WFP's oversight and administrative requirements.

But the most contested issue in ARC's institutional arrangements relating to its sustainability is **the division between ARC Agency and ARC Ltd.**

Among the ARC Group respondents, perceptions within **ARC Agency are generally very positive about the organisational setup and structure**, praising its senior leadership and staff skills. Views from ARC Ltd are considerably more negative towards the division of labour between the two entities. An example of this is the perceived **'cultural' difference between ARC Agency and ARC Ltd**, with ARC Agency being criticised as too much resembling the public sector, where progress takes a long time and there are no tangible repercussions for poor performance or for maintaining inefficient processes. ARC Ltd, on the other hand, is seen to operate with a business model that is less tolerant of inefficiencies.

In this light, many respondents also view the current organisational reform process as being 'superficial' and 'not addressing the root issues'. Similarly, the move to Abidjan was discussed in the same vein as being a distraction from the real issues that ARC is facing, as doing nothing to enhance its operational effectiveness, and only creating more issues – *inter alia* being an expensive move, raising operational costs, being logistically difficult for travel, and offering lower incentives for the recruitment and retention of skilled staff. Instead, it is seen purely as a move to satisfy 'optics' – exemplifying the public sector culture criticisms.

However, the move was noted as arising from a decision by the Conference of Parties that ARC be housed within a member state, as stipulated by its treaty. This was a point made by respondents within and outside of ARC as a simple matter of fact – even if not always supported – alongside mention of the fact that it is beyond ARC's direct control to decide on this. Among the online survey respondents (country representatives), ARC's location is seen to be an important issue (12 out of 16), with most (nine out of 11) preferring Abidjan.

Among the DRF experts and donor respondents, views are similarly critical. Criticisms relate firstly to **technical aspects of ARC's forecast model and the division between ARC Agency and ARC Ltd on this topic**. The view among ARC Ltd respondents is generally negative, with the perspective that they own the insurance but do not have sight of how it is sold and how its customisation requirements are taught and set up in member states. For ARC Ltd, this limits the degree to which they can engage with clients and support improving the product for which they are ultimately responsible. They also see this as a key area where ARC Agency has no real accountability mechanisms – the repercussions of product errors or

related issues do not fall on them but on ARC Ltd, and ultimately this is seen as a dysfunctional division of labour and responsibility.

Similarly, respondents draw lessons from CCRIF, which was noted as having a very small product development team, as the majority of product development is outsourced. This allows the in-house team to remain lean, while ensuring the contracted entity delivers on time with a product that is fit for purpose. CCRIF has also continued to develop and adapt its models.

A second topic of concern relates to **'inefficiencies' within ARC Agency**. For example, respondents cited the following issues: running costs for ARC Agency are far higher than those previous CBAs have considered as appropriate; the overall low level of delivery for ARC Agency (low conversion to purchasing insurance, slow product development, continued capacity building without creating lasting change), which is seen as indicative of not having the right capabilities in place; and the fact that ARC Agency may in fact not be best placed to administer capacity building to its member states. Some respondents suggested that this may rather be better undertaken by more localised actors, such as Replica partners (even in cases where a country does not have Replica) like WFP, given their wide-reaching presence across countries.

A third area cited by respondents was **ARC's governance**. This relates firstly to there being no clear outreach plan to bring more countries into membership, with the effort and vision seeming to be wholly directed towards increasing awareness in countries that are already on board. This was criticised as not helping the organisation grow into other AU countries.

The Board has been an area of concern in the past, being seen as inactive and disengaged. The new Board offers the opportunity for changes in the way it works across the ARC Group. The Board is seen to be fundamental to the Group achieving success and holding the ARC Group accountable.

Finally, views are held by a number of respondents that there is **substantial organisational underperformance and a lack of accountability among ARC's leadership, including the Board**. These criticisms were amplified by several respondents noting that these 'organisational discussions have been happening since 2016', and that ARC needs 'a major change in management to achieve sustainability'.

EQ4.2.3. Are there any constraints on sustainability in relation to learning?

Summary: Within the ARC Group, respondents consistently noted that most of ARC's learnings are 'informal and undocumented'. Formal learning mechanisms are established around the process evaluations conducted in countries after they receive payouts, as well as client surveys and regional workshops. One example of ineffective learning relates to ARC's risk model. While ARC has taken efforts to respond to critiques of the drought model by making improvements to it, these may either not be adequately communicated to its stakeholders or they may be insufficient to fundamentally improve the model's reliability.

Respondents were asked about the degree to which they see ARC as a 'learning organisation'. Within the ARC Group, respondents fairly consistently noted that **most of ARC's learnings are 'informal and undocumented'**.

An example was given of the customisation process, which is seen as too long, with deadlines for signing policies and paying premiums. The result of this 'learning' is that customisation is conducted every two years, rather than annually. This is not documented but has become the new cadence for customisation reviews.

Formal learning mechanisms are established around the **process evaluations** conducted in countries after they receive payouts. However, these were noted as being somewhat deficient at times and as not following consistent methodological standards. Some efforts were noted in regard to implementing recommendations related to ARC specifically or applying recommendations to the country-specific contingency plan design, but these responses are seen to be *ad hoc* and variable in nature.

While some deficiencies were noted in the process evaluations, these also offer a positive evidence base in regard to how ARC's payouts are used. Even where they do not feed into specific formal learning processes, they have value for understanding ARC's potential impacts at country levels.

The more critical view of ARC is that it is **not a learning organisation, given its lack of formal learning processes and identifiable responses to lessons**. For some, ARC is still a relatively young organisation, where learning has not yet been systematised and is more *ad hoc*. For example, there were perceptions from some Group respondents that the KPIs used to assess staff performance are inadequate, despite Agency's confirmation that the WFP 'PACE' system is used to assess performance. However, there are ample opportunities for ARC to improve on its efforts to learn more formally and systematically, utilising the evidence base from process evaluations and other partner data available to ARC.

But perhaps the **most concerning example of ineffective learning relates to ARC's risk model**. Different reviews were discussed during the interviews, with consistent refrains relating to ARC not being sufficiently transparent with the technical details used in the model, and the fact that, where deficiencies have been found or alternative options identified, ARC is seen as slow or reluctant to make necessary changes to improve the model. However, in its 2021 report to its donors, ARC notes the 'ongoing concerted effort to improve the accuracy and reliability of Africa RiskView'. The report lists eight different aspects that have been added or revised in order to improve its reliability, including *inter alia* adding new data for policy underwriting, a soil dataset to improve the WRSI performance, and increased flexibility in the spatial calculation resolution for projects.

Therefore, while ARC has indeed made efforts to respond to critiques of the drought model by making improvements to it, these may either not be adequately communicated to its stakeholders, or these improvements may not have been sufficient to fundamentally improve reliability. The evaluation did not undertake an independent technical review of the model and so is unable to assess the relative importance of alternative explanations.

EQ4.2.4. To what extent does ARC have buy-in and support from its key stakeholders?

Summary: Among ARC's very diverse stakeholder group, there is generally very positive support for, and buy-in of, the principles that ARC was founded on. However, each stakeholder group also has explicit reservations around their support and buy-in, in some cases reflecting diminishing levels of commitment.

When considering ARC's key stakeholders, this analysis includes member states, representatives from within the ARC Group, DRF actors, regional actors, and ARC's donors. Among this diverse group of stakeholders, there is generally very **positive support for, and buy-in of, the principles that ARC was founded on:** i.e. *helping member states improve their capacities to plan, prepare for, and respond to extreme weather events, and assisting member states to reduce the risk of loss and damage from natural disasters by providing targeted response to disasters in a more timely, cost-effective, objective, and transparent manner.*

However, each stakeholder group also has explicit **reservations around their support and buy-in, relating to a number of core issues.** These include **member states expressing concern over receiving a payout and the forecasting technicalities that determine that** (see the discussion on EQ 3.2. in Section 5.3). For **ARC Group respondents, the division between ARC Agency and ARC Ltd is seen as problematic** (see the discussion on EQ 4.2.2 in Section 5.7). And for donors, **ARC's general governance and transparency are unsatisfactory**, particularly the level of information shared and responsiveness to requests (see the discussion on EQ 4.2.2 in Section 5.7).

6 Findings: VfM

6.1 EQ2: To what extent does ARC represent VfM for countries, beneficiaries, and donors?

Overall finding: ARC is generally performing just within expectations across most, but not all, critical VfM factors. There is significant scope for improvement. Economy is rated as adequate, reflecting in part high operational costs, while efficiency is rated as adequate-to-good, reflecting concerns around the quality of the drought risk model. Effectiveness is rated as poor-to-adequate, principally due to the slow delivery and limited impact of support to beneficiary households. Equity is rated as poor because the extent to which interventions were delivered to the most in need could not be ascertained.

To evaluate whether ARC has delivered the maximum benefits possible for the resources used, this overarching VfM question (EQ2) is broken into three sub-questions:

- 2.1. How is ARC intended to provide VfM for countries, beneficiaries, and donors, and what are the critical factors that affect its potential to do so?
- 2.2. To what extent is ARC performing as expected on critical factors that affect its potential VfM for countries, beneficiaries, and donors, and what improvements could increase the VfM of ARC?
- 2.3. To what extent is ARC likely to provide cost-effectiveness⁴² for countries, beneficiaries, and donors over the next five years?

This section addresses the first and second sub-questions (EQ2.1 and EQ2.2). The third (EQ2.3) was addressed by a separate CBA study, a forward-looking assessment of likely VfM which will assess the potential economic value of ARC over the next five years by examining the relationship between ARC's outcomes/impact and costs (OPM, 2022). The CBA was undertaken in parallel with FE2. Findings have not been integrated into this report but the evaluation was informed by some of the analysis and conclusions presented in the draft report.

Sub-section 6.2 below summarises the work carried out under the theory-building component of the VfM workstream, which addresses EQ2.1: in other words, assessing how (from a theoretical perspective) the ARC programme can provide VfM, and what are the critical factors underpinning this. The emphasis is on describing how ARC is intended to function and what critical, observable factors affect its potential VfM. In practice, this involves elaborating on the ToC from an economic perspective.

Sub-section 0 summarises the findings of the VfM assessment that was designed to address EQ2.2. OPM has developed an innovative approach to rigorously evaluating VfM (OPM, 2018). This has been applied to undertake a formative evaluation of the extent to which ARC

⁴² This sub-question originally referred to VfM in the detailed design document, but it was modified to focus more narrowly on cost-effectiveness, reflecting the scope of the CBA study that will address EQ2.3.

is performing as expected on critical factors that affect its potential VfM from various perspectives (i.e. countries, beneficiaries, and donors), and what improvements could increase its VfM.

6.2 EQ2.1. How is ARC intended to provide VfM for countries, beneficiaries, and donors, and what are the critical factors that affect its potential to do so?

Summary of findings

The purpose of the theory-building component was to analyse and explicitly define the value proposition of ARC from the perspectives of countries, beneficiaries, and donors. Analogous to the way a ToC describes how ARC activities and outputs are expected to translate into outcomes and impact, the value proposition describes the mechanisms by which ARC is intended to manage resources (economy), productively deliver outputs (efficiency), create value (cost-effectiveness), and distribute value (equity). The focus is on ARC's support to drought response, particularly through insurance. The emphasis is on describing how ARC is *intended* to function and what critical, observable factors affect its potential VfM. In practice, this involves elaborating on the ToC from an economic perspective, to produce a ToVC (King, 2021). This descriptive step was carried out through a desk-based document review, complemented by relevant findings emerging from the VfM assessment and the other FE2 workstreams – in particular, Workstreams 1 and 2 (context assessment and ToC update).

A diagrammatic presentation of the ARC ToVC is shown in Figure 14 below. This has been developed based on the various iterations of the ARC ToC, but was also particularly informed by the two previous CBA studies of ARC:

- a 2013 *ex-ante* CBA conducted during ARC's design phase, which identified critical determinants of costs and benefits based on parameters under consideration at the time (Clarke and Hill, 2013); and
- a 2020 *ex-post* CBA that compared the assumptions of the first study with ARC's actual operations in its first five years and estimated net benefits using revised methods and assumptions (Kramer *et al.*, 2020).

A draft ToVC was shared with ARC and donor representatives as part of the two VfM workshops held in December 2021 and January 2022, and it was updated in line with the feedback received.

How ARC is intended to produce value

It is the evaluation team's understanding that the policy 'problem statement' that ARC is intended to address is how to use *existing* donor and sovereign government funding for drought response more *effectively* (i.e. getting it to households who require it quicker) and more *efficiently* (i.e. a higher proportion of the funding reaches the end recipients). In the short term, ARC is not intended to address the more systemic and longer-term policy 'problem statement' of how to reduce the need for donors to fund drought response, except to the extent that ARC may be a way of introducing the concept of insurance-based risk

pooling to its client countries. Insurance-based risk pooling could potentially play a larger role in a future in which these countries fund more of their own drought response, with reduced contributions from external donors.

In line with this understanding, the ToVC below illustrates how ARC is intended to deliver on three broad impact areas, to create value for countries, beneficiaries, and donors.

Firstly, **ARC aims to protect households from loss of assets and livelihoods as a result of drought** by providing funding for emergency support programmes. This impact creates value by enabling **household consumption smoothing, which cushions reductions in consumption in response to drought-related income shocks**. Further value is created if this support reduces the need for households to engage in harmful coping strategies, such as reduced food consumption, pulling children out of schools, or selling productive assets. At the extreme, this could translate into lives being saved, although this depends on the level of support provided.⁴³

Secondly, **ARC aims to reduce the need for reactive donor and sovereign spending in response to severe and low-frequency events**. This impact creates value by enabling **greater predictability and smoothing of donor and sovereign humanitarian spending**, compared to a typical reactive humanitarian response.

Thirdly, **ARC is intended to give greater and more effective control of resources to sovereign governments**, as compared to a typical donor-led humanitarian response, where much of the disaster response funding is channelled via United Nations agencies and large-scale international NGOs. The value this impact creates is less tangible but relates to the value placed on **increased domestic risk ownership and greater sovereignty, accountability, and sustainability in country-level risk planning and response**, whereby country-level contingent liabilities are transparently and efficiently planned and budgeted for. Over time, this would also be consistent with a desire to reduce the need for donor support, with countries eventually being able to independently fund and manage their emergency drought response.

What are the critical factors for achieving this value? As shown in the ToVC diagram, the three impact areas are achieved via two key outcomes:

1. reliable and timely availability of resources for domestic-led early response to droughts, complementary to donor-led humanitarian assistance (*'speed benefits'*); and
2. increased capacity of countries to effectively plan for and respond to drought (*'speed benefits' + 'targeting benefits'*).

Reliable and timely availability of resources for domestic-led early response to droughts essentially relates to the accuracy of the drought model (i.e. payouts occur when there are droughts) and ARC's ability to transfer payouts in a timely manner (i.e. in line with the logframe target of 30 days). Taking a step back, this outcome also requires member countries to have actually purchased an insurance policy, which relates to their

⁴³ The ToVC does not include potential *ex-ante* effects, where households alter their investment patterns as a result of increased confidence in government support because of sovereign insurance. While this was an assumption in previous CBAs, it is not believed to be likely to occur in practice.

understanding, expectations, and available resources. The first two of these are part of what ARC Agency seeks to influence, and the latter is supported through premium subsidies provided by donors.

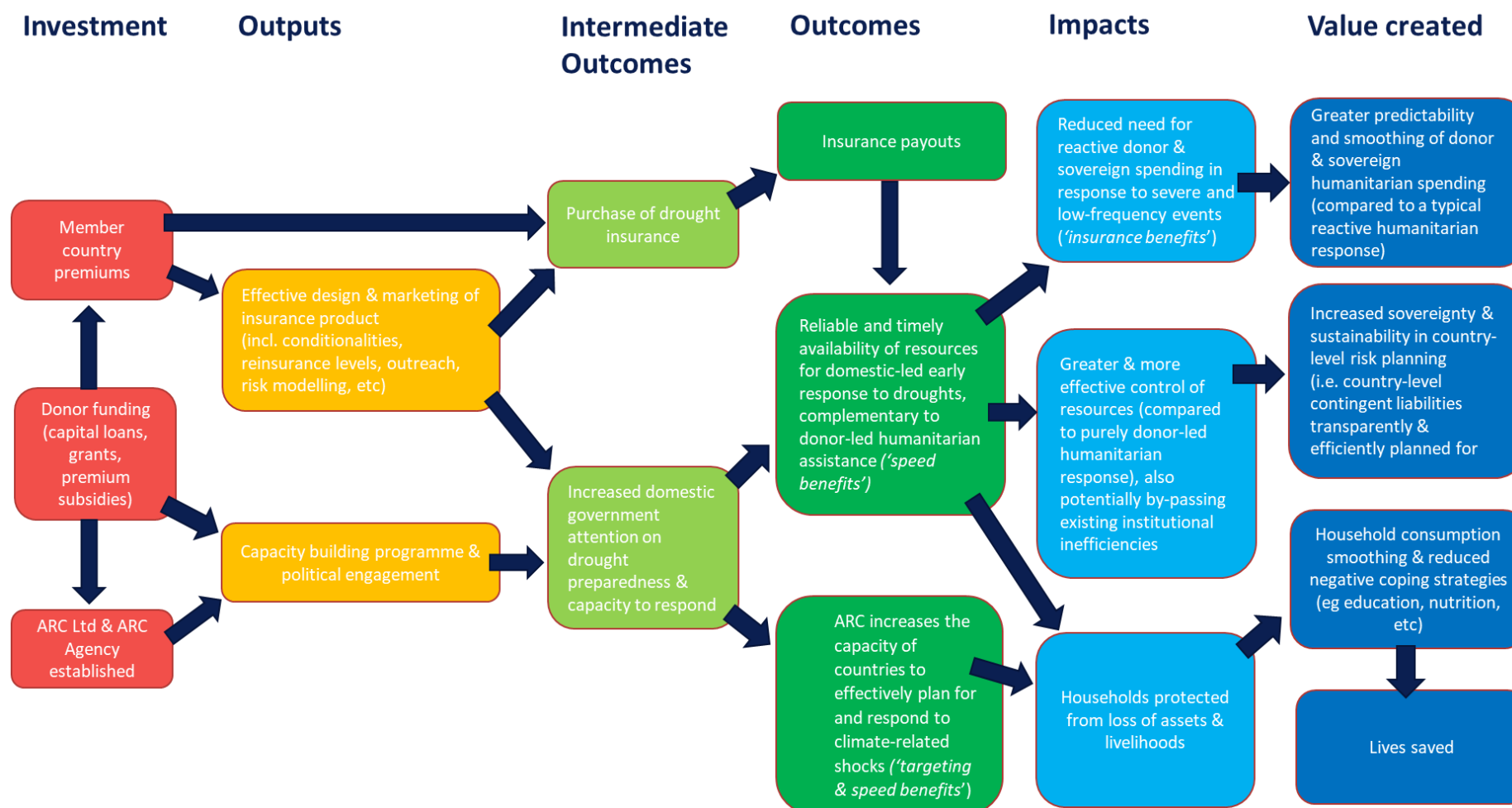
Increased capacity of countries to effectively plan for and respond to drought is more complex, and less within the control of ARC. In addition to timely resources (provided by the ARC insurance payout), contingency planning is required to shape the response and ensure appropriate support is cascaded to drought-affected households in a timely manner.

ARC supports the design and implementation of appropriate drought response by requiring all member countries to have an OP that sets out the specific activities to be undertaken in the event of a payout. OPs provide detailed information about the following: the country's natural disaster risk profile; RTP; planned interventions (including how they meet ARC eligibility criteria); draft implementation plans for each potential intervention; implementing partners, process for the flow of funds; targeting; procurement needs; and M&E.

Following the confirmation of a payout, the government in question, in collaboration with ARC, works on the development of the FIP. FIP development is a joint process and is very collaborative, involving relevant national and international stakeholders, with inputs from the ARC technical and sub-technical committees. FIPs are expected to follow the OP to facilitate faster response plans and disbursement of funds. Given that much of the information is defined in Ops, completing the FIP details is a relatively rapid process. The FIP details how a specific ARC payout will be deployed after a specific natural disaster event. It provides details on specific interventions and activities that will be carried out in the event of a payout. Compared to the OP, the FIP offers details on the specific geographical locations that will receive assistance via the proposed interventions, the estimated number of beneficiaries in each, and the estimated cost of covering the target population with these interventions for the entire ARC implementation period. They also define stakeholders' roles and responsibilities and provide additional information on the flow of funds (including budget and timelines), and targeting and procurement processes (where applicable), and they re-confirm the M&E strategy and the possible risks associated with the intervention's implementation. FIPs must be submitted one month before the payout is due.

Therefore, in order for ARC to successfully support the capacity of countries to effectively plan for and respond to drought, the various elements of ARC's capacity building efforts and support to the development of the OP and FIP need to be effective. The objective of these efforts is to ensure that the FIP is consistent with a sound OP that has been approved by the TRC. However, the FIP also needs to be implemented effectively, in terms of both fidelity to the scope of the plan and adherence to the specified timeframe. ARC's capacity building and support efforts will make some contribution to ensuring implementation is effective and timely, but ultimately this is beyond ARC's direct control.

Figure 14: ARC drought insurance: ToVC



Critical factors for providing value

In summary, the critical factors for ARC successfully providing *value* are as follows:

1. Member countries correctly understand the value of ARC insurance for their context, and the premiums are affordable.
2. Sufficient accuracy of the drought model, i.e. payouts occur when there are droughts.
3. ARC Ltd is able to transfer payouts in a timely manner (the logframe target is 30 days).
4. Member countries have appropriate drought response plans in place (i.e. FIPs that are in line with sound Ops).
5. Countries receiving payouts have sufficient capacity and well-designed processes to effectively implement their drought response plan in a timely manner, in line with the FIP.

Additional factors for converting value into VfM

The discussion above outlines how ARC is intended to provide *value* for countries, beneficiaries, and donors, and the critical factors for achieving this. This is obviously a pre-condition for providing *VfM*, which relates to the value created against its cost.

Therefore, in addition to the critical factors for achieving value, there are also additional factors for translating value into VfM. In broad terms these correspond to FCDO's '4Es' VfM framework, and can be summarised as follows:

- i. *Economy: inputs are of the appropriate quality and are purchased at the correct price.* For ARC this principally relates to ensuring unit costs for salaries, reinsurance, operational costs, and overheads are appropriate.
- ii. *Efficiency: the correct inputs are purchased to produce the relevant outputs (allocative efficiency), and outputs are maximised for a given level of inputs (technical efficiency).* For ARC this means minimising the cost per output. Specifically, for ARC Ltd this entails maximising the volume of relevant well-designed drought insurance products it offers to the market, at competitive prices and underpinned by a robust ARV model. For ARC Agency this requires maximising the volume of high-quality political engagement, TA, product development, and the capacity building support it provides to member countries for a given budget.
- iii. *Effectiveness: the outputs produced by ARC have the intended effect.* This will be achieved by ensuring the five critical factors listed above are realised.
- iv. *Equity: the benefits are distributed fairly to those who need it, and successfully reach marginalised groups.* For ARC this means ensuring that the Ops clearly define the relevant target groups and corresponding targeting criteria. This then needs to be effectively operationalised to ensure the target groups are reached, with minimum targeting errors (both inclusion and exclusion).

If all of this is achieved, in addition to the critical factors listed above, ARC has the potential to provide good VfM going forward.

Ultimately, however, it is the *relative* VfM of ARC, as compared to alternative implementation models, that is the most relevant consideration. In other words, are there alternative approaches that can create the same (or more) value as ARC, but for less cost? Where value is defined (as above) in terms of: donor expenditure smoothing; increased member country sovereignty and ownership of its risk planning; and reduced household-level negative coping strategies in response to drought-related shocks. The key consideration is whether or not alternative models (e.g. contingent credit plus donor-funded TA and capacity building programmes) are likely to be cheaper than an insurance-based model (which requires specialist skills that come at a high cost), without (in particular) undermining the value-add of promoting greater sovereignty and sustainability in country-level risk planning, which is inherent to the intended ARC model.

6.3 EQ2.2 To what extent is ARC performing as expected on critical factors that affect its potential VfM for countries, beneficiaries, and donors, and what improvements could increase the VfM of ARC?

Summary of findings: VfM judgements

This section provides judgements against the first part of the evaluation question: **‘To what extent is ARC performing as expected on critical factors that affect its potential value for money for countries, beneficiaries, and donors?’** These ‘critical’ factors correspond to the VfM sub-criteria that were defined as part of the VfM framework development process.

Our judgements of ARC’s performance against each of the VfM sub-criteria are summarised in Table 10 below. Annex D provides a comprehensive response to the evaluation question, with detailed evidence supporting each of the VfM judgements made. What follows here is a summary; please refer to the annex for more details.

In terms of **economy**, ARC’s performance is **adequate**. Reinsurance and running costs are being managed but are not being minimised. ARC Ltd’s conservative approach to reinsurance and comparatively high operational costs undermine ARC’s current VfM, as it means ARC could potentially be delivering the same value for less cost (to donors and/or countries). From the perspective of member countries, although almost all respondents from the four countries interviewed reported ARC’s drought insurance to be good value, this was heavily caveated, and (more tellingly) less than half of all ARC member countries currently hold a policy.

In terms of **efficiency**, ARC’s performance is **adequate-to-good**. ARC payouts are mostly reliable and timely, with payouts received within the 30-day target for three out of four of the countries that received a payout within our reporting period (i.e. since late 2019). ARC is also judged as providing high-quality capacity building support to participating member countries to improve drought preparedness, although there are concerns about whether ARC capacity building is sufficiently focused on building long-term capacity, rather than delivering short-term objectives. On the other hand, while there are processes in place for continuous improvement of the drought risk model, there are significant concerns around the technical quality of the model, the robustness of the input data, and basis risk management.

In terms of **effectiveness**, ARC's performance is **poor-to-adequate**. While ARC support contributes to the design and implementation of appropriate drought response interventions, none of the last four drought responses reached beneficiaries in a sufficiently timely manner, i.e. within four months of the ARC payout being received. As a result, the assistance did not help a significant proportion of households to avoid negative coping strategies in most payouts, which calls into question ARC's overarching objective to protect livelihoods and save lives. More broadly, however, ARC has made a useful contribution to country-owned risk management strategies, and this is sustainable in some member countries, most notably Senegal and Madagascar.

In terms of **equity**, ARC's performance is **poor**. Problems with targeting data and processes in each payout suggest that target populations were not consistently reached. Furthermore, detailed records on beneficiaries who received assistance, disaggregated by demographic and vulnerability characteristics, were not kept in any of the payouts, despite commitments to do so.

In is significant scope for improvement. ARC is not fully delivering its intended value and could be operating at a lower cost. Areas of relatively good performance are the reliability and timeliness of ARC payouts, and the quality of capacity building support to participating summary, ARC is generally performing just within expectations across most (but not all) critical VfM factors, so there member countries to improve drought preparedness. On the other hand, there are specific weaknesses in terms of ensuring ARC-funded drought support actually reaches households in a timely manner and ensuring that support reaches those most in need.

Table 10: Overall judgement on ARC VfM

VfM criteria	Sub-criteria	Evaluative judgement	Basis for judgement
(1) Economy	1.1. Capital, reinsurance, and running costs are kept as low as possible	Adequate	This judgement is due to ARC Ltd's high operational costs. In 2021, reinsurance levels were estimated to be 81% of the total expected payouts, but with an approach for managing the level of reinsurance and a clear justification for why they are higher, thus meeting the standards for 'good'. ARC Ltd's budgeted operational costs are 14% of total premium value, thus not meeting the standards for 'good' ($\leq 10\%$ of total premium value) but do meet the standard for 'adequate' ($\leq 20\%$ of total premium value). ARC Agency's overhead costs are believed to be similar to comparable organisations, but information on actual spend was not available. ARC Agency appears 'top-heavy', with 40% of its staff earning more than US\$150,000 per year.

VfM criteria	Sub-criteria	Evaluative judgement	Basis for judgement
	1.2. ARC offers relevant, well-priced products	Adequate	With 36 member states, 44% (16) have bought at least one drought policy by 2021, despite the availability of subsidies to support policy purchase. While almost all respondents from the four sampled countries reported ARC's drought insurance to be good value, this was heavily caveated due to lack of previous payouts, price of premiums and confidence in the forecast behind the drought risk model.
(2) Efficiency	2.1. Accurate prediction of relevant drought events	Adequate	While there are processes in place for continuous improvement of the ARV model, there are significant concerns around the technical quality of the model, the robustness of the input data, and basis risk management. The latter has resulted in disagreements about basis risk, with the potential to undermine confidence and cause reputational damage.
	2.2. Reliability and timeliness of ARC payouts	Good	In the reporting period, payouts were received within the 30-day target for 75% of the countries (three out of four) that received a payout.
	2.3. ARC provides high-quality capacity building support to participating member countries to improve drought preparedness	Good	While the evaluation identified good capacity building practices, there are concerns about whether ARC capacity building is sufficiently focused on building long-term capacity, rather than delivering short-term objectives. The lack of a capacity building framework and data disaggregated by member country also makes it difficult to form a judgement on ARC's overall performance in relation to capacity building quality.
(3) Effectiveness	3.1. ARC support to enhanced contingency planning and capacity building contributes to timely and appropriate drought response	Poor	While ARC support contributes to the design and implementation of appropriate drought response interventions, none of the four latest drought responses reached beneficiaries in a sufficiently timely manner, i.e. within four months of the ARC payout being received.
	3.2. ARC-funded drought response reduces negative household-level coping strategies	Adequate	The assistance reduced negative coping strategies in <i>some</i> households in all four payout cases, but not as many as half (which would be required to meet the standards for good). The failure to help a significant proportion of households to

VfM criteria	Sub-criteria	Evaluative judgement	Basis for judgement
			avoid negative coping strategies in most payouts calls into question how far ARC is achieving its overarching objective of protecting livelihoods and saving lives.
	3.3. ARC successfully facilitates increased sovereignty and sustainability in country-level risk planning	Adequate	ARC has made a useful contribution to country-owned risk management strategies, and this is sustainable in some member countries, most notably Senegal and Madagascar.
(4) Equity	4.1. ARC-funded drought response support reaches the people who are most in need	Poor	We cannot say whether, or to what extent, interventions were delivered to target populations in any of the payouts. Problems with targeting data and processes in each payout suggest that target populations were not consistently reached. Furthermore, detailed records on beneficiaries who received assistance, disaggregated by demographic and vulnerability characteristics, were not kept in any of the payouts, despite commitments to do so in the FIPs.

7 Findings: ToC

Overall finding: Overall, the evaluation found relatively limited progress to date in delivering against the short-term and intermediary outcomes of the three sub-ToCs. The most positive is work on strengthening government DRM capacity (rated amber-green), which is well established and universally valued by governments. However, this is undermined by staff turnover in recipient governments and the lack of a strategy to graduate countries out of support. Innovation and development work (rated amber-red) has been hampered by the slow development of new sovereign insurance products and remaining concerns around the crop drought model, despite progress in other areas. Sales of insurance products have also grown slower than expected (rated amber-red). Sales of sovereign products are lagging, although ARC Replica and premium subsidies have supported growth in the value of sales. The number of countries engaged with ARC has increased, but treaty ratification has flatlined. Although beyond the direct control of ARC, the frequent failure of aid to reach recipients within the expected timeframe represents a significant failure against the overall ToC.

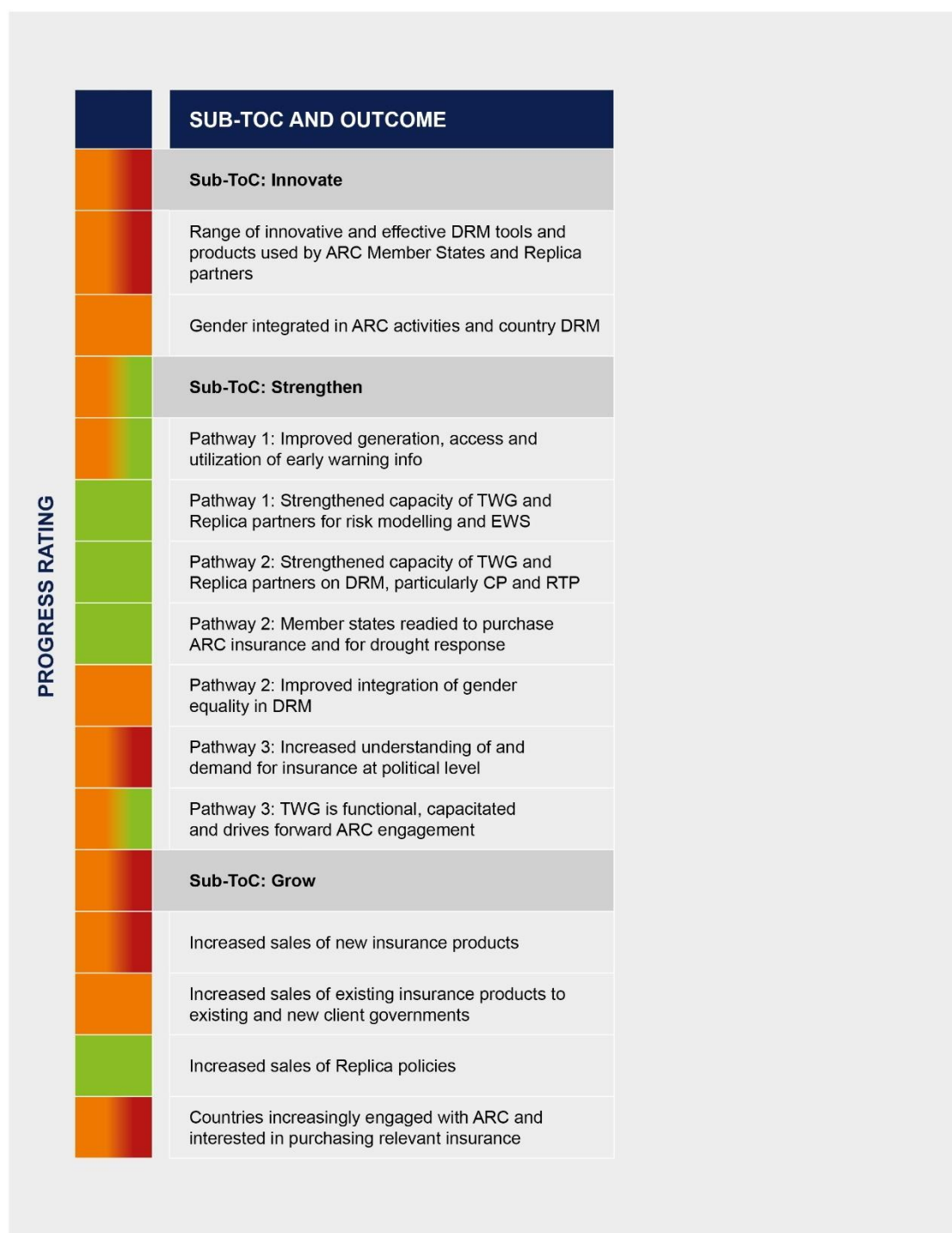
7.1 Approach

This section summarises progress against the three sub-ToCs developed by the evaluation team. It also identifies findings from FE2 that are relevant to the overall ARC ToC.

ARC's overall ToC and the three sub-ToCs developed by the evaluation team are outlined in Section 2 and described in more detail in Annex B, which presents the detailed pathways that are referred to in Section 7.2 below. The evaluation design did not define evaluation questions specific to the ToC. Instead, it proposed to report on evidence of progress against the overall ToC and assess the extent to which the detailed sub-ToCs hold.

In practice, since the overall ToC provided a broad description of ARC strategy, the main focus of FE2 has been on assessing progress against the sub-ToCs. Progress against each sub-ToC and each pathway within it has been rated using the RAG rating scheme described in FE1, with green indicating positive progress, amber indicating some progress but also challenges, and red indicating little progress and significant challenges.

The team also reviewed the overall ToC and has proposed a number of additional underlying assumptions. Although the evaluation did not include a comprehensive assessment of progress against the overall ToC, this section identifies findings relevant to it, largely with respect to underlying assumptions. It also makes some more general comments on the overall ToC.

Figure 15: Summary of progress against outcomes, ARC sub-ToCs

7.2 Sub ToCs

Innovate – overall rating: AMBER-RED

This rating is primarily driven by the very slow rate of development of sovereign insurance products (tropical cyclone, flooding, O&E, and Extreme Climate Facility) and the remaining concerns around basis risk for the crop drought model. The evaluation team recognises progress in other areas, but these are such fundamental issues pertaining to ARC's innovation ambitions that they have determined this rating. The gender work looks to be making positive progress, but it is still in its very early days.

Ratings for each short-term outcome

Range of innovative and effective DRM tools and products used by ARC member states and Replica partners: AMBER-RED

In the last two years, ARC has offered two new insurance products – rangeland and tropical cyclone – and has continued to make improvements to its crop drought model. The contingency standards and guidelines have been updated, and sub-sovereign products have been piloted.

However, there are major concerns over the reliability of the crop drought model, which pose very serious questions for ARC. The time for research and development for new products is extremely long – five years for tropical cyclone and O&E, and seven years for flooding (and the latter is still not available). It appears that no rigorous market surveys/business cases have been developed for new products and no non-insurance products are yet available.

Gender integrated in ARC activities and country DRM – AMBER

In relation to ARC activities, five guidance notes were finalised in October 2021, which are intended to support gender mainstreaming in ARC's contingency planning, risk modelling, country engagement, HR, and O&E. In relation to DRM more broadly, gender analysis has been completed in just one country so far (Zimbabwe), with studies and activities being started in four others (Comoros, Malawi, Mozambique, and Sudan). These, and other activities by the gender unit, are positive but they represent small steps when considered against the low base of knowledge and some hesitancy concerning gender and DRM.

Strengthen: Overall rating – AMBER-GREEN

Strengthening government DRM capacity is a critical part of ARC's offering. ARC's capacity building and technical support – particularly on ARC's core areas of risk modelling, contingency planning, and RTP, for which there is a well-established training programme – is universally valued by governments; capacity building on gender is just getting underway. Unfortunately, this is undermined by high levels of turnover at both political and technical levels within recipient governments, and despite the clear commitment, insufficient progress has so far been made on increased engagement at the political level. ARC does not have a clear strategy or framework for conceptualising how countries' capacity is expected to be strengthened, with a clear aim of moving towards graduation from the capacity building programme. Thus capacity is being built, but in many cases this is happening (and

remaining) at the individual level – it is not moving towards institutional or transformational capacity building.

Ratings for each short-term outcome

Pathway 1: Generation of, access to, and utilisation of early warning information

Improved generation of, access to, and utilisation of early warning info – AMBER-GREEN

ARC has provided the drought risk model and worked with government experts to customise this for each country's particular circumstances. According to ARC's reports against its KPIs, 20 countries use ARC tools in their national early warning system. Our KIIs found that countries use information from ARV to monitor the season and to provide information to relevant government departments about what can be expected. This feeds into information from other national/regional established food security early warning systems. This would have received a green rating; however, there are lingering questions concerning the reliability of the model and how ARC is managing this.

Strengthened capacity of TWG and ARC Replica partners for risk modelling and early warning systems – GREEN

ARC has continued to provide technical support and training to members of the TWG and ARC Replica partners, to enable them to customise and use the ARV software and incorporate this into their early warning systems. This support is valued. In our KIIs and in ARC's client satisfaction surveys,^[1] ARV support receives lower scores than contingency planning.

Pathway 2: Other capacity building, processes, and provision of tools

Strengthened capacity of TWG and ARC Replica partners on DRM – particularly contingency planning and RTP – GREEN

ARC has continued to develop tools, standards, and guidelines, and to provide technical support and training to members of the TWG and ARC Replica partners. This has enabled them to develop contingency plans which are vetted by independent experts via the TRC, and to understand RTP and choose appropriate parameters for their context.

Member states readied to purchase ARC insurance and for drought response – GREEN

This is assessed by reference to the number of countries receiving a Certificate of Good Standing from the Board, which requires them to submit an OP that is in line with ARC's standards and approved by the TRC and Peer Review Mechanism. The number of countries with a Certificate of Good Standing has been steadily increasing, from 10 in 2016 to 17 in 2021; this is in line with – or exceeds – logframe targets, apart from in 2021, when the target was 19.

^[1] In the 2018 survey, 69% of the 36 participants confirmed that they benefited from the ARV training programme. 50% answered positively to the question 'Did ARC provide sufficient assistance in terms of training and information to enable you to effectively use the Africa RiskView software?'. No equivalent information is provided in the key findings of the 2019 survey.

Improved integration of gender equality in DRM – AMBER

The evaluation team found strong engagement with gender mainstreaming, and the work of the gender unit is appreciated. Early training has gone well, and is driving more progress in ESA than WCA. However, this is early days for ARC's gender strategy; the gender guidance notes have only just been published and are not well socialised and while there is strong intention around including gender in contingency planning, this is often not well operationalised in the FIP, and M&E is not adequate to ensure that outcomes are achieved. There remains hesitancy among some ARC staff and in some countries.

Pathway 3: Strategic country engagement**Increased understanding of and demand for insurance at the political level – AMBER-RED**

Understanding of insurance at the political level has increased over the years, from a very low starting point. However, this understanding does not always lead to increased demand, and it is not yet generally institutionalised, such that demand in many countries can be undermined by changes at ministerial level and lack of trust in the model, and thus remains fragile. ARC recognises that more needs to be done in this space but has not yet managed to systematically engage and inform political decision makers, nor to develop country strategy papers which support a more tailored and nuanced approach.

TWG is functional, capacitated, and drives forward ARC engagement – AMBER-GREEN

In general, TWGs appear to be functioning well: ARC has systematically engaged and informed technical stakeholders; the three core sub-groups on contingency planning, risk modelling, and RTP contain people with the right skills; and capacity building is being provided. The biggest constraint is the frequent turnover of staff, which is problematic because parametric drought risk modelling is often new to people or more complex than the alternatives, so a new person coming in requires a significant input in terms of capacity building. The other key constraint is the time required from TWG members, who often see ARC as an add-on to their normal duties.

Grow – overall rating: AMBER-RED

The development and sales of new insurance products by ARC has been slower than expected. The delays to development of the flood product present a considerable reputational risk for ARC, even as it has rolled out its tropical cyclone product to a much smaller clientele. Sovereign drought product sales are not increasing at the pace needed for ARC's mainstay product and weakening confidence in its risk model threatens to further stymie growth in this area.

The rise of ARC Replica and the introduction of premium subsidies – both driven by the international community – have been a boon for ARC and have enabled an increase in sales.

Beyond insurance sales, the number of countries that have engaged with ARC has steadily increased, although this was slower than expected in 2021. The number of countries that have ratified the treaty has flatlined at 10, representing a major threat to ARC's growth from 2023 onwards.

Ratings for each short-term outcome

Increased sales of new insurance products – AMBER-RED

The take-up of ARC's new insurance products – specifically its rangeland and tropical cyclone products – has been significantly slower than expected. Tropical cyclone was recently launched and purchased by one country, and rangeland by two countries, with key potential buyers (Mozambique and Kenya, respectively) not yet purchasing. The flood and O&E products remain in very protracted development. Thus at this point ARC's development of new products has not contributed to growth as expected, and its offerings continue to be narrowly focused on its crop drought product.

Increased sales of existing insurance products to existing and new client governments – AMBER

The risk pool has grown in recent years. However, the number of countries purchasing drought policies has lagged behind logframe targets. And while the value of sales has marginally exceeded targets, this has been significantly aided by ARC Replica, which makes up around 30% of sales. Sovereign coverage has perhaps been driven by the offer of premium subsidies and financing.⁴⁴

ARC's engagement with country governments is seen to be largely focused on existing clients, with efforts seen to be largely devoted to retaining clients over attracting new ones, and no clear strategy in place for growing into new client countries.

Increased sales of ARC Replica policies – GREEN

The number and value of ARC Replica policy sales have risen since their arrival in Pool 6, with growing interest from partners and donors.

Countries are increasingly engaged with ARC and are interested in purchasing relevant insurance – AMBER-RED

The number of ARC member countries (i.e. that have signed the treaty) has grown very little since its establishment – it has been steady, at around 35, for several years. ARC is continuing to reach out to new countries – for example, engagement with Lesotho and Djibouti has begun recently – but this remains a slow process and major countries, such as Kenya and Nigeria, remain outside the pool. Key indicators of demand – such as the number of countries that have ratified the treaty, that have valid signed MoUs, that have Certificates of Good Standing, and that have functional TWGs – have increased reasonably steadily from 2016 to 2021 but achievements in 2021 were below logframe expectations for all four indicators. Of major concern is the fact that treaty ratification has stalled at 10 countries for the last three years; from 2023, only countries that have ratified the treaty will be eligible to buy insurance, unless the treaty is modified, and hence this represents a huge threat to ARC's growth.

⁴⁴ In risk Pool 8, 12 countries have policies, at a total premium value of US\$ 21,859,846. Of that total premium value, countries paid only US\$ 8,160,614 (37%); the rest was made up of premium financing and subsidies.

7.3 Overall ToC

In addition to the assessment of progress against the three sub-ToCs, the evaluation team has reviewed the overall ToC.

Comments on the overall ToC

The overall ToC appears to provide a good representation of ARC's overall strategy, and ARC has substantial 'ownership' of it. FE2 has identified a number of issues, which include the following:

- Since it represents the overall strategy, the ToC includes activities that have not yet been undertaken at scale. This was true also of the initial sub-ToCs developed by ARC around the three strategic objectives (which are not presented in this report). This means that it does not provide a basis for evaluating ARC at this point in time.
- Much of the ToC is focused on activities related to sovereign insurance and it is not clear that it would apply to other types of products.
- The role of development partners and the scope of financing required from them is understated.
- Some of the elements labelled as (short and intermediary) outcomes would be more appropriately considered outputs, as they are under the control of ARC.
- The assumptions included in the diagram are not comprehensive and in some cases are too narrow. The evaluation team identified a number of additional assumptions and clarifications, which are listed in Annex B and discussed below.

Evaluation findings relevant to the overall ToC

RAG ratings against the three sub-ToCs, as specified by the evaluation team, provide a moderately negative indication of progress to date. Although 'strengthen' is rated amber-green, both 'grow' and 'innovate' are rated amber-red.

This evaluation has not included an overall assessment of progress against the entire ToC. However, the VfM analysis identified significant concerns about the failure of aid to reach recipients within the expected timeframe in many cases. While this is due to factors that are often beyond the ability of ARC to change, at least as it is currently operating, this represents a major failure of the ToC to hold along its core pathway.

The evaluation identified a number of key assumptions underlying the ARC ToC and raised questions about the extent to which they hold. The three main issues arising are as follows:

- The need for clarification and agreement on the value proposition that ARC represents and the problems that it is addressing. The original ToC, the work done on revising the ToC, and the process of developing a ToVC for ARC make it clear that there are a number of different aspects to, or perspectives on, the value created by ARC. They include risk pooling, faster and better-targeted humanitarian aid delivery for both member state and international donor-financed humanitarian responses, as well as the strengthening of sovereignty and accountability of member states.

- There are questions about whether ARC's overall structure and organisational functioning are sufficiently fit for purpose, as well as whether there is a clear and credible financing strategy, sufficient demand, and sufficient other sources of finance to provide a basis for long-term sustainability.
- While ARC is developing DRM capacity within member states, the frequent failure to deliver aid within expected time periods raises doubts that member states have sufficient complementary capacity in place to deliver to the agreed plans.

8 Conclusion, recommendations, and lessons learned

ARC can point to a number of substantial achievements since its foundation. This includes launching new products, growing the risk pool, and undertaking significant organisational and governance reforms. The overall context has, in the past two years, been dominated in many respects by the Covid-19 pandemic. Nevertheless, ARC faces significant challenges, and most of the priority recommendations made in the first formative evaluation in 2017 are repeated here, as many of the problems remain to be fully addressed.

Below we summarise our findings across the evaluation questions in this formative evaluation. We go on to make specific recommendations arising from the findings for ARC and its key stakeholders. Lastly, we draw out lessons that may be useful for audiences beyond ARC.

In reading these recommendations, it should be remembered that ARC is by far the most ambitious of the regional risk pools. It is unique in having an explicit focus on supporting poor and vulnerable people, and particularly women; it requires countries to have effective and approved contingency plans; and it has an explicit aim to build national capacity. It is also by far the most transparent of the regional risk pools, with evaluations undertaken after payouts, in addition to the 10-year FCDO-funded evaluation programme. Other DRF instruments are far less transparent.

8.1 Conclusions

Organisational mandate, scope, and focus

Most evaluation respondents agreed that ARC's mandate is clear, and ARC has developed a high level of buy-in of its underlying premise among key stakeholder groups. However, the evaluation found that there is a lack of clarity and agreement about the fundamental value proposition that ARC provides.

There are different perspectives on the value created by ARC (its 'value proposition'). The original premise, as articulated in the original ToC, focused on risk ownership and risk pooling by African governments, with support provided by ARC to develop their capacity to respond rapidly to drought. However, it is unclear how much demand or need there is for sovereign risk pooling itself, with many of the current purchases being subsidised and some of the payouts small relative to government budgets. ARC is also understood to create value by helping to provide 'institutional fixes' to financial allocation challenges within governments and in the international humanitarian response, particularly in support of early (but partial) responses. Strengthening sovereign leadership and the accountability of member states for emergency responses is also seen as important.

There are alternative mechanisms for delivering these objectives, which include rules-based contingency funds, grants, or loans. ARC and its key stakeholders require clarity on its core value proposition since this provides the basis for defining its role and justification, relative to

alternative mechanisms. This in turn informs strategy, prioritisation, and ARC's case for support from international development partners.

There are also concerns that ARC is sometimes spreading its efforts too thinly. Areas where this is apparent include the following:

- ARC's aspiration, stated in MoUs with member states, is to contribute broadly to the development of **holistic national DRM** strategies via analysis and advice. While this is a clear government need, it is not clear that ARC has the capacity and skills to do this.
- A broad focus on DRM approaches in ARC's **gender strategy**, rather than a focus on ARC's core business of DRF.
- **A partnership approach** that is perceived as *ad hoc* and scattered across a broad range of partners, rather than focusing on a smaller number of quality partnerships with clear objectives, and without a well-formulated approach to the World Bank.
- Attempting to develop too many new products at once, instead of first **establishing and ensuring the quality of existing products**.

There is an **inherent conflict of interest between selling a specific insurance product and attempting to develop capacity in broader DRM and DRF**. The latter should include providing impartial TA to countries to develop their capacity to assess and select appropriate DRF instruments, of which insurance is only one, yet ARC Group needs to sell its insurance products and is expected to meet sales targets. This conflict is reflected in tensions between ARC Limited and ARC Agency, and risks creating practical conflicts of interest, such as in regard to the approval process for OPs.

There is an opportunity for broadening ARC's core focus on sovereign governments **to bring in more ARC Replica policies and partners**. These partners may help to provide in-country technical support to governments, state/non-state collaboration may increase the efficiency of the response, and non-state actors have existing skills in disaster preparedness and response.

Organisational issues

A number of respondents suggested that some ARC Agency processes are inefficient, contributing to sub-optimal delivery of services and products. The process of onboarding new clients, for example, was identified as being overly complicated and time-consuming, in addition to ARC Agency being slow in delivering on product development. ARC's administrative association with WFP may also contribute to inefficiencies.

ARC Ltd's operational costs are on the high side compared to reasonable benchmarks. Annual operational costs are above the original target of 5% of total premium value (at 19% in 2020) and spend on executive management and administration is more than double that of CCRIF, which is a much larger operation. High ARC Ltd costs push up premium prices, providing lower benefits and VfM to member states, and potentially reducing sales and ARC's ability to grow the risk pool.

ARC Agency budgeted running costs are similar to those of comparable organisations (16%), but the evaluation has only seen a budget, not actual expenditure data. High

remuneration costs in ARC Agency (due to WFP bands) relative to some comparators appear to be an important driver of costs, coupled with a relatively **high proportion of high-paying roles**. Despite this, some informants have **concerns around competencies in some areas**, such as forecast modelling and donor relationship management, and it was suggested that difficulty in attracting highly qualified experts may contribute to skills gaps. The latter may be further compounded by the planned move to Abidjan.

Donors have raised issues about **weak governance, such that poor organisational performance has not been tackled**. The previous ARC Group Board was characterised as disengaged but has recently been replaced. Donors also pointed to a **lack of transparency from ARC Agency** about how donor funding has been used, and a lack of responsiveness to donor requests on spending and funding planning. Other informants identified a weakness in managing competing donor priorities. The latter also reflects limited coordination on the donor side.

Structurally, the division between ARC Ltd and ARC Agency was found to be dysfunctional. ARC Ltd is accountable for policy sales yet has no control over product development, which is handled by ARC Agency, and has little opportunity for engagement with countries. The division of labour has generated tensions between the two entities and is unclear to informants from some member states. There have been significant attempts to review and improve the organisational structure, but these have not yet been successful.

Some respondents identified **weak organisational learning and knowledge management** – for example, the lack of continuous improvement measures (such as staff KPIs) or a results-based management framework, and little in the way of systematic formal learning from experience, such as using lessons from payout evaluations to improve subsequent contingency planning and response.

Business model and financial sustainability

In March 2020, ARC Ltd developed an Inclusive Growth Plan for 2020–25, and in January 2022, a Fundraising Strategy detailing the ARC Agency funding required for 2022–26 was developed, partly in response to donor calls for a diversified funding plan. The evaluation questions the coherence of the overall approach to growth and long-term financial viability, and the way it is understood across the Group.

ARC Ltd's Inclusive Growth Strategy identifies the main sources of income growth to be reinsurance and retrocession, premiums from new sovereign product lines (tropical cyclones and floods), and non-sovereign business. Income from sales of sovereign and ARC Replica drought insurance has grown substantially, but this has been heavily dependent on donor financing. There has been little progress in other areas, and the slow development and roll-out of new sovereign products and the challenges of moving into quite different markets suggest this strategy may not be realistic.

The **Fundraising Strategy for ARC Agency** makes it clear that substantial donor support will be required over the next five years. It is not clear that such support will be forthcoming. Some donors have lost confidence in ARC due to a lack of perceived transparency, responsiveness, and efficiency. New donors have engaged, but currently their support is limited in its timeframe and support has increasingly been focused on premium financing. A

lack of funding for ARC Agency may jeopardise the continued financial viability of the whole ARC Group.

The evaluation also questions the **current level of reinsurance, which appears excessive** given ARC's unusually high level of capital. This approach to minimising risk reduces profit and pushes up the price of premiums.

Growing the risk pool

Growth of the risk pool is a central tenet of ARC's long-term financial sustainability. ARC has generally exceeded its logframe targets for the monetary value of insurance sales and the number of member states with Certificates of Good Standing and contingency plans, and evaluation respondents from sampled member states generally value ARC's drought insurance highly. However, ARC has missed its logframe targets for the number of policies taken out by member states and the value of sales has only been met through ARC Replica policies. The evaluation found that ARC's **marketing and outreach activities have largely been ineffective**, with more effort directed at supporting existing policy holders than gaining new ones, and no clear strategy and outreach plan to bring in new members.

The evaluation identified a number of **areas that may contribute to ARC's below-target growth** in the risk pool. These include the following: high premium prices, which may be unaffordable for some low-income countries (though partly addressed in the short-term through premium subsidies); no clear mechanisms to understand the market/country needs; low awareness of, or understanding of, the role of insurance within member state governments, especially among some decision makers; weaknesses in work with partners that can help to build demand; and distrust in the drought risk model and payout decisions among some clients.

Expansion of ARC Replica insurance could help to grow the risk pool but there is no strategy for ARC Replica, and logframe targets suggest that ARC currently has no aims to increase the number of Replica policies.

Drought risk modelling

At the country level, ARC has a clear Customisation Quality Review process, including a quality standards checklist that is completed by the TWG and reviewed by the ARC Technical Support Division and ARC Ltd. **All countries in the sample use ARV as one input in their early warning systems**, and the information is generally seen as complementary to other information sources. The evaluation found one occasion when information from ARV was used to trigger early action (i.e. before the end of the season) – in Senegal in 2019.

However – in an echo of the first formative evaluation – **perceptions of problems with the drought risk model among many key informants** are significant and often override other positive perceptions of ARC's work. These perceptions preceded, but have been compounded by, the basis risk problems and late payouts to three west African countries in 2021/22. The effect has been **a loss of trust in the model and ARC's payout decisions**, which, in turn, may have an impact on members states' decisions to purchase premiums, ARC's ability to grow the risk pool, and ARC's financial viability. Incorrect perceptions of how

insurance works may further compound the problem and suggests a weakness to date in ARC's advocacy strategy.

The evaluation did not undertake a technical review of the model, but there are some indications of problems – for example, with vulnerability data used in the model (which are often out of date and not detailed enough), and question marks over the suitability of the WRSI as the main dataset for risk modelling. **ARC has reported making some improvements and updates to the model**, but the evaluation found that these have been limited to new features and refinements to the parameters of the model, rather than a more fundamental review of the model, the use of different indices, or using a variety of datasets, which could lead to greater improvements in accuracy and reliability. ARC has not done a good job of communicating the improvements it has made, which could help to restore trust.

Capacity development

Capacity development for government staff in ARC's core areas of risk modelling, contingency planning, and RTP is a key part of ARC's value proposition and is a high priority for ARC. It is a challenging area given the highly technical and complex nature of drought risk modelling, high turnover among government staff at technical and political levels, and the low base of existing knowledge on DRF and insurance.

ARC has succeeded in building the capacity of 17 out of 35 member states to use its product – as measured by having a valid Certificate of Good Standing. There has been an increase in the number of drought contingency plans on the continent due to ARC, and this has supported the response to drought, including in some countries that have not taken out a policy. The establishment of TWGs has strengthened coordination among relevant government departments and with external actors and informants from some member states said that ARC has helped them to feel more empowered and to take ownership over drought response. ARC's training programme and technical support are universally valued by governments.

Capacity is now strong, and ARC's role is much reduced, in two countries – Senegal and Madagascar. However, **most countries still require significant ARC involvement at all stages of the risk planning and response process**, and recent TRC reviews suggest that there has been little improvement in the quality of country contingency planning in recent years. Crucially, over half of distributions did not start within the expected 120 days of a payout, which calls into question the overall effectiveness of capacity building processes.

As in the first formative evaluation, this evaluation identified **several key weaknesses in current capacity building efforts**. First, ARC has no clear strategy/conceptualisation regarding how sustainable capacity will be developed and if, how, and when countries will graduate away from direct support. Second, while the number of trainings is reported, there is no framework for monitoring and measuring capacity building *outcomes*, so ARC cannot demonstrate that capacity has improved. Third, ARC does not systematically learn lessons – for example, from payout evaluations – and apply them to subsequent planning. Fourth, few ARC Agency staff come from a humanitarian response background, reducing their ability to identify key weaknesses in government response capacity. Fifth, the current model of in-country capacity development is costly, consuming about 45% of total ARC Agency spend

(around US\$ 5.5 million/year). ARC is developing an online learning system to reduce costs, but more radical solutions to reduce capacity building costs are required.

Gender and vulnerability

ARC has an **ambitious gender strategy** and a strong gender team, and has undertaken a wide range of activities towards its aim of transforming DRM approaches to ensure gender equality. However, progress has been slower than expected, due at least partly to Covid-19 restrictions.

There is much to do in order **to institutionalise gender in ARC's core functions**, such as providing a much clearer articulation of how to mainstream gender and vulnerabilities in contingency plan guidelines, providing guidance to the TRC to score gender in OPs, and bringing ministries of gender into TWGs. The evaluation suggests that the current focus on gender in the ARC Strategy may lead to omissions in relation to other vulnerabilities.

At the country level, there has been **good reception of ARC's gender work**, and government key informants strongly acknowledged the importance of gender and other vulnerabilities. Nonetheless, OP commitments on gender are not well operationalised in FIPs and M&E is inadequate such that process evaluations are not able to state whether interventions reach the intended beneficiaries – this is key for ARC to deliver on its central value proposition. So far, there is less traction in west African countries, where ARC may need to develop more nuanced messaging in relation to cultural norms.

Timeliness and impact of support to households

Reaching households that are most in need of support more quickly than a typical humanitarian disaster response underpins ARC's core value proposition. A speedy response starts with ARC and must be continued by governments. The evaluation found that ARC has almost always met its KPI target of 30 days from the payout trigger to payment to recipient governments – except where there was basis risk. However, the relevant governments only met the KPI target of starting distribution to households within 120 days of receipt of ARC funds in three out of eight relevant payouts. The delays reflect shortcomings in effective contingency planning and in response capacity.

ARC Replica partners are able to provide a swifter response than governments, which is perhaps not surprising as they have established systems and processes, and staff who are experienced at scaling up swiftly and delivering assistance.

In terms of impact, the three payout evaluations examined in the VfM assessment demonstrate that ARC-financed support **helped a significant proportion of the beneficiary households included in the surveys to avoid resorting to negative coping strategies in Senegal. However, the proportion was much lower in Madagascar and Zimbabwe.** This may have been due to timeliness, Covid-19 restrictions, and/or **the relatively small amount of support provided, compared to household needs** (although this may still be of value to recipients, particularly in combination with other interventions or on top of existing safety net support).

Evidence in some payout evaluations of the use of poor-quality data for targeting plans, and that targeting criteria and/or processes outlined in FIPs have not been followed, also suggest that **government interventions may not always be well targeted**, and **poor government M&E systems and reporting mean that governments/ARC cannot confirm which households are reached**. If interventions are poorly targeted and do not reach those most in need, the potential of ARC support to protect the most vulnerable households from resorting to negative coping strategies is diminished.

ARC VfM

ARC is performing just within expectations (i.e. at adequate level) across most, but not all, critical VfM factors, and there is significant scope for improvement. Areas of relatively good performance are the reliability and timeliness of ARC payouts, and the quality of capacity building support to participating member countries to improve drought preparedness – areas which are under ARC’s direct control. ARC is not fully delivering its intended value largely due to weaknesses in ensuring ARC-funded drought support reaches the households that are most in need in a timely manner. While this is beyond ARC’s direct control, ARC needs to find ways to support governments to improve the implementation of their drought responses if it is to fulfil its core value proposition of protecting livelihoods from the effects of serious droughts. VfM can also be enhanced by reducing operating costs and reinsurance levels, both of which can, in turn, help to lower the cost of policy premiums for member states.

8.2 Recommendations

While ARC has made progress since the last formative evaluation, it is clear that there are a number of critical issues that still need to be addressed.

Recommendations were developed independently in FE2, given the specific evaluation questions and the time that had elapsed since FE1. However, a comparison with FE1 shows a number of similarities. Of the 11 priority recommendations in FE1, several have been addressed by ARC such that they were not reflected in FE2. This includes the need for improved communications and to tighten timeframes for premium payments, as well as the introduction of premium financing. Six issues from FE1 came up again for FE2, and four of these were key issues – these relate to problems with the risk model/ARV, the need to strengthen operating procedures (albeit in slightly different areas), the need to resolve issues between Agency and Ltd, and the need to review the capacity building approach. ARC has undertaken activities to respond to issues in all of these areas, but these have not been sufficient to address the problems.

The evaluation makes the following recommendations, for consideration by ARC Group, its Board, the AU and ARC donors.

Recommendations for ARC

1. ARC Group should **clarify and agree its core ‘value proposition’** with its main stakeholder groups, including member countries, the AU, and development partners. This means clearly identifying the various different areas of impact that ARC is expected

to contribute towards, and how well it is able to do so relative to other instruments. Different stakeholders may give different levels of importance to each and there are trade-offs between them. As outlined in Section 6, they include, distinctly:

- o **Enabling the provision of swift assistance to vulnerable people**, to prevent them from resorting to negative coping mechanisms and to protect lives and livelihoods;
- o **Enabling governments to smooth and rapidly mobilise expenditure** required to respond to a drought or other disaster;
- o **Strengthening government leadership**, accountability, and capacity to respond to drought or other disaster; and
- o **Enabling donors to smooth the expenditure** required to respond to a drought or other disaster, where donors provide premium funds.

In addition, there is the question of how far ARC should focus on the role of insurance in addressing its objectives, compared with other DRF instruments, and how far capacity building should be focused on supporting the use of ARC payments or on strengthening DRM capacity more widely. Considering the trade-offs, at one extreme prioritising wider capacity building could suggest Agency becoming an independent capacity building organisation, not linked to Ltd products. Prioritising instead rapid response over country leadership might imply a shift of donor financing towards Replica premiums. A recognition of the potential trade-offs and an explicit specification of priorities is required.

This is the basis of ARC's existence and a central foundation for decisions about ARC's strategy and structure, including the relationship between Agency and Ltd. It will also provide the basis for ARC's longer-term financing strategy. Once agreed, ARC should focus on delivering to its core value proposition in the immediate future, and avoid widening ambitions until this is demonstrably being delivered. Other recommendations made in this evaluation may need to be reviewed on completion of this process.

2. Assuming that the agreed value proposition continues to include timely and effective support to vulnerable households, ARC Agency needs to **identify strategies to help recipient governments improve implementation of their ARC-funded drought response** – particularly the timely, sufficient, and well-targeted delivery of support. Although challenging, given that this is beyond ARC's direct control, this is central to ARC's purpose and the reason it was established. A key first step is proactive and systematic learning from process evaluations, including how well government drought responses reflect the plans made in OPs and FIPs, as well as drawing on expertise from independent humanitarian response organisations and ARC stakeholders, to identify common bottlenecks and approaches to address these. Other changes required include amending OP requirements to include a stronger focus on the delivery and monitoring of assistance, including how the funding will move through government systems, strengthening the planning process around key blockages that slow down implementation, and identifying national organisations that can support better intervention design and targeting.
3. **ARC must address the immediate funding crisis faced by Agency**, which will impact both Agency and Ltd. This is only likely to be achieved through support from international development partners with whom ARC has an existing relationship, given the urgency.

These donors will need to be convinced that ARC has a plan to address their concerns, which include structure, VfM, governance, transparency, and responsiveness, and is beginning to do so. This requires both a short-term plan for immediate reforms, as well as a clear process to identify and plan the response to challenges that need a longer timeframe. The evaluation recommends this be addressed through the agreement of a) a **two-year reform plan**, coupled with b) an **inclusive strategy development process** that sets out how longer-term challenges will be addressed after the end of the current strategy period in 2024.

4. For the **two-year reform plan**, reforms should be prioritised and agreed with key stakeholders, including development partners who will be asked to provide financial support. This should be developed into a sequenced plan with clear, time-bound, and monitorable milestones. The following areas should be considered as potential priorities for this plan:
 - a. Transparency in budgeting and in the reporting of expenditure should be improved, demonstrating that resources are being directed to priority areas and used efficiently. If there are unsurmountable constraints to improving some aspects of reporting, these need to be explained and documented.
 - b. Operational costs for both ARC Agency and ARC Ltd should be reviewed and where possible reduced, based on a clear understanding of current expenditure patterns and the drivers behind them. The objective should be to improve overall VfM, not simply cut costs.⁴⁵
 - i. For Agency, this should include beginning the shift to more cost-efficient approaches to capacity building through a more extensive use of online resources and/or the use of in-country partners. The proposed move to Abidjan should be postponed until financing is more secure and consideration should be given to abandoning it. The treaty should be amended if necessary to permit this.
 - ii. ARC Ltd should, as part of cost reduction, reduce reinsurance costs.
 - c. ARC Agency and ARC Ltd should commission a fundamental **external review of the drought model** to ensure that it is fit for purpose, leverages the latest scientific knowledge, and meets current sectoral technical expectations. This would consider alternative indices, datasets, and approaches and might learn from the NGDI and other technical advancements, as well as through collaboration with regional meteorological centres. ARC would need to be completely open and transparent about the model to enable external experts to review it fully. Opportunities to reduce the complexity of the country customisation process should be examined, given the requirements this imposes on country-level actors and thus on ARC's capacity building. Improvements made should be communicated in order to address the distrust of the model among a number of member countries.

⁴⁵ Addressing some recommendations may potentially imply increasing expenditure in some areas, for example in supporting governments to improve the speed and targeting of their drought responses. This would nevertheless be expected to increase ARC's overall VfM.

- d. ARC must agree with its main stakeholders, particularly the development partners who finance it, on how product development will be improved. It must address the issue of whether it is managed by ARC Agency or ARC Ltd, and whether it is undertaken internally or outsourced. ARC should rapidly implement the agreed resolution.
 - e. The effectiveness of the working relationship between ARC Agency and ARC Ltd should be improved in other areas where this can be addressed without structural change. This should include strengthening communication and coordination, for example in undertaking joint missions.
 - f. ARC must continue to grow sales. This requires effective marketing of the new products it has coming to market and of existing products to new clients through better country engagement. The limitation to the number of countries that can purchase ARC policies from March 2023, in line with the treaty, must be removed. Premium subsidies should be secured for as long as possible and growth in the sales of Replica policies should be actively pursued.
 - g. Other recommendations identified below which are agreed to be both high priority and realistically deliverable in the two-year period could also be included in the reform plan.
 - h. ARC should appoint an additional senior staff member to lead this reform process, since planning and implementing these changes is too large a task to be incorporated within existing roles.
5. ARC should develop the **ARC Group Strategy for post-2024** during the two-year period. This should provide a **clear outline of how it will address both high-level strategic questions as well as other financial, organisational, and operational issues** identified in this evaluation that are not addressed prior to 2024, as outlined in the following recommendations. The process needs to begin in early 2023 and to involve a wide group of stakeholders, including the AU and the development partners who will be asked to finance it.
6. The strategy process outlined above **must examine and resolve the more fundamental questions about the structure and mandate of ARC**, beginning with and informed by the fundamental question of ARC's core purpose and value proposition (point 1). This includes the question of whether ARC Agency and ARC Ltd should continue to operate under a unified ARC strategy and Board. The re-examination might also consider if there are alternatives to the treaty basis for ARC that would provide the organisation with more strategic and operational flexibility. It should clarify ARC's relationship with the AU. It should carefully assess the benefits and costs, including non-monetary costs, of the service agreement with WFP and take a decision on whether it should be continued after 2024. Changes resulting from the previous governance review have failed to resolve a number of these issues; learning from why this is the case should feed into future strategy development processes.
7. ARC requires a **coherent medium-term financing strategy** based on an appropriate structure and organisational model, with costs that are reasonable and likely to be sustainable.

- a. ARC should **more clearly delineate the expected market for its products**, and develop a realistic path to growth and a clearer and more structured strategy for **engaging new countries**, including criteria for deciding which countries to target and detailed strategies for engaging with targeted countries.
 - b. **ARC Agency** needs to define a **clearer and more detailed medium-term financing strategy** than is set out in the current Fundraising Strategy. This strategy is likely to include ongoing dependency on international donor funds, which may be justified in principle by the role that ARC plays in supporting the overall humanitarian response system. ARC will need to ensure effective relationships with donor partners and to manage the tension between depending on donor funding and being an AU specialised agency established by treaty. ARC should also define how member countries should begin to contribute to ARC Agency costs – for example, through membership fees. Options for funding from the AU should also be explored.
 - c. **ARC Ltd** should also develop a **clearer long-term diversification and business plan and long-term financial strategy**. This should include:
 - a detailed development rationale and business case for entry into new market areas;
 - a reduction of the level of reinsurance, with funds redirected to better use; and
 - more effective growth in sales, and a clearer strategy on the role of ARC Replica insurance, through joint work with ARC Agency.
 - d. ARC Agency should also explore opportunities to draw on larger amounts of money coming through some other channels, including the World Bank and other climate-related finance mechanisms. This should support, not substitute, the addressing of key reforms.
8. ARC Agency should develop a more strategic and systematic approach to **capacity building**, including how countries will be expected to graduate out of support, how country-level capacity can be retained, how the number of countries supported should evolve over time, how it will measure progress towards stated objectives, and how unit costs can be minimised and brought within a realistic operating budget for the projected workload.
- a. ARC should consider how far **capacity building may be undertaken through an alternative, more cost-effective strategy**. It may be more effective for a smaller cadre of Agency staff to provide high-level input (training of trainers, ongoing support, guidance, tools, etc.) to experienced humanitarian agencies that are stationed in country, who already have a detailed national knowledge of both the technical and political aspects concerning DRM and emergency response. This might include ARC Replica partners as well as stronger engagement with GRiF, ADRiFi, and other ongoing programmes.
 - b. Based on the strategic approach and country strategy papers, Country Engagement Managers should develop a **tailored approach to capacity building in each country** based on country-specific factors (such as how established the current institutions are to prepare for and respond to disasters, how much humanitarian support is typically received, etc.). The papers have a key role and

- should, amongst other things, provide practical pointers on how to best embed ARC within different national departments, programmes, and initiatives to ensure its sustainability and institutionalisation.
- c. **It should include MEL plans**, with a baseline (likely using the scoping papers), **and should explicitly aim for graduation from ARC's capacity building support**. It should include indicators or standards for training delivered in-person and through ARCAcademy, ensuring that there is a continual improvement plan, as well as peer-to-peer learning and learning events. It would explicitly take a learning and adaptive approach, with regular reviews. Recognising that building sustainable capacity is challenging, this could be married with active lesson learning with other organisations, such as the World Bank and ADRiFi, in order to compare costs and approaches to identify solutions and actively seek synergies.
 - d. To drive forwards progress on this agenda, and ensure continuous review and improvement, ARC should assign **responsibility and accountability** for capacity building to **one senior individual within ARC Agency**.
9. ARC should use the development of the post-2024 strategy to identify how it will strengthen a number of core functions.
- a. High-level strategic objectives should be translated into explicit, documented **'delivery strategies'** that outline how objectives will be achieved, filling the gap between high-level strategic aspirations and one-year operational plans.
 - b. **Learning and knowledge management** functions should be strengthened across the organisation, with a particular focus on using evidence (from payout evaluations, client satisfaction surveys, etc.) to improve delivery and capacity development. This should include documenting the **analysis underlying key decisions and investments** (e.g. market surveys and business plans for new products, models, and approaches).
 - c. **Country engagement should be more systematic**. ARC Agency should use the country strategy papers to articulate a clear and specific advocacy strategy for each country, based on national realities (in relation to institutions, hazards, and political structure) and incentives, in order to improve the effectiveness of engaging with political actors and to support institutionalising DRF and ARC.
 - d. ARC Agency should do more to institutionalise **gender** issues, particularly: a) working with the TRC and Customisation Committee chairs to develop clear criteria for OPs and ARV customisation and overseeing their introduction and use; b) carefully monitoring, reviewing, and adapting new products and approaches (e.g. guidance notes and TWG sub-groups on gender, advocacy, and communications); and c) expanding work with national-level partners and particularly leveraging the expertise of Replica partners.
 - e. ARC Agency should review its **partnerships** to ensure that all add value in relation to ARC's core proposition, and in particular work with the **World Bank**, to develop a collaborative way of working for mutual benefit.

Recommendations for ARC Board

1. The Board should **oversee and drive responses to this evaluation**. It should hold Agency and Ltd accountable for developing the two-year reform plan, with sign-off by the Board, implementing the plan, securing financing, and ensuring the organisation aligns behind the reforms.
2. The Board should **lead work on addressing the most fundamental questions around ARC's purpose and constitution**. This should include the issues of:
 - a. ARC's value proposition and purpose;
 - b. ARC structure, including the division of responsibilities between Agency and Ltd;
 - c. The current treaty basis of ARC; and
 - d. ARC's relationship with the AU.
3. The Board should **oversee the process of developing the next strategy**, ensuring it addresses priority issues through an inclusive process.
4. The overall Board and the Board of ARC Ltd should **provide pressure to control costs and maximise VfM**.

Recommendations for the AU Secretariat

1. The AU Secretariat should be an **active participant in discussions establishing ARC's value proposition and long-term vision**.
2. The AU Secretariat should lead a process to **establish what role and relationship ARC should have within the AU mandate and structure**, including in relation to other specialised agencies that help address DRM needs. In light of this, it should propose, together with other stakeholders, whether ARC should move to a relationship more typical of specialised agencies, receiving funding and having a direct line of accountability to the AU.

Recommendations for member countries

Engagement with ARC

1. Member countries should **engage actively in discussions on ARC's core value proposition**. This should include communicating their needs in relation to DRF and DRM, identifying where and how ARC can help them to meet the needs that it is best placed to address, and recognising restrictions in terms of mandate and resources and the complementary role of other actors.
2. Governments need to **institutionalise new capacities developed through ARC support** so that capacity is not lost through ongoing staff turnover and reassignment. This should include ensuring sufficient staff are engaged in ARC training and that

systems are put in place within government departments to retain and share knowledge and experience gained through ARC's capacity building.

3. Governments should work with ARC to strengthen their M&E systems and **improve reporting on, and learning from, their drought responses**.

Strengthening drought response

1. Governments need to find ways to **speed up their response** from the time of receiving a payout to assistance reaching beneficiaries. This should include improved contingency planning and response capacities and other forms of preparedness, including a specific focus on public financial management (such as setting up dedicated bank accounts in advance of payouts) to ensure that governments are ready to act as soon as ARC funds are released. It may also be worth considering **intervention designs** that can help to speed up the response – for example, by reducing the complexity of the intervention.
2. Governments should look for ways of **collaborating more closely with country-based response organisations**, including ARC Replica partners, whose expertise may help them to increase the efficiency and effectiveness of their support.
3. Governments need to enhance their **capacity to implement targeting processes, with attention to gender and equity issues**. Finding ways to increase community participation may also help to improve targeting.
4. Governments need to **strengthen their M&E systems** in order to monitor the effects of their interventions, record and report key information (including disaggregated data on beneficiaries), learn lessons to improve future interventions, and improve reporting to ARC and accountability to donors and their own citizens.

Recommendations for donors

1. Donors should **engage actively in discussions on ARC's core value proposition**, contributing to the clarification of core objectives and decision-making around key trade-offs. As part of this, donors should consider how best to **support African countries to develop comprehensive DRM capacity**, to complement the work of ARC. This includes providing support for stronger national M&E systems.
2. Donors should agree on their own shared objectives for ARC and how to best combine their funding in support of ARC, in order to **avoid setting up competing priorities for ARC**.
3. Donors should **monitor for improved levels of accountability, transparency, and communication from the new Board**, and should communicate clearly with the Board if these are not being met.
4. Should donors agree that ARC has developed a credible, monitorable plan to undertake priority reforms, they should provide sufficient, **predictable finance for the next 24 months** to allow ARC to undertake the agreed reforms and develop a coherent strategy for post-2024. This could potentially be broken into a modest number of payment tranches, access to which is contingent on demonstrating sufficient progress.

5. Provided that agreement is reached about ARC's core value proposition, mandate, and operational model, donors should also commit to **stable, longer-term financing** of ARC.
6. Donors should provide funding through a streamlined channel built around a **single, harmonised reporting structure and agreed ways of working** in order to minimise the transaction costs associated with reporting to and communicating with multiple donors.
7. Donors should facilitate engagement and actively support **collaboration between ARC Group and World Bank operations**.
8. Donors should ensure **greater transparency** on costs and promote and support evaluations **for other DRF programmes**.

8.3 Lessons learned with application beyond ARC

Lessons for providers of insurance risk pools

1. There are a number of **generic lessons** emerging from the evaluation that are applicable to most organisations. They include ensuring clarity and sufficient consensus around core objectives and strategy, delivered through an appropriate organisational model based on coherent, long-term financial planning. Reflecting on the current challenges faced by ARC, it is important to maintain a sufficiently close working relationship and effective communication with key stakeholders, including the organisations providing finance, in developing strategy and in planning and reporting. The organisation must also maintain sufficient flexibility to respond effectively to recommendations made in evaluations, reviews, and internal learning processes.
2. There are also more specific lessons for **other regional risk pools that are looking to become 'development insurers', which have a good deal to learn from ARC's experience**. It would be valuable for such pools to engage systematically with ARC to identify lessons and resources from across the organisation. Lessons identified in this evaluation include:
 - a. Being clear and precise, both internally and with partners, on where the real 'added value' is, what it costs to deliver it, and who is likely to be prepared to finance it in the medium term;
 - b. Other risk pools are unlikely to undertake so much capacity development. For any that is undertaken, it should start with a cost-conscious model, working with other partners where possible and focusing on the sustainability of the capacity built;
 - c. Build in evaluations and learning against clearly specified objectives, looking at the government response as a whole and sharing learning across participant countries and more widely;
 - d. Provide transparent and systematic reporting, including of costs.

Lessons for donors

1. Where multiple donors are involved, provide **harmonised and consistent direction and requests** that are well aligned with the organisation's mandate, in order to avoid stretching the organisation beyond its mandate or creating conflicting priorities.
2. Request **sound, long-term financial planning using diversified sources**, with clarity on the role and timescales of donor funding.
3. Agree on mechanisms for **good governance, transparency, and accountability** early on in any support process in order to protect ongoing trust and confidence.
4. Where multiple donors are involved, ensure **harmonised and coherent reporting requirements** in order to control transaction costs to the organisation.

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Annex A Background and context

This annex to the report summarises some of the key contextual issues that might influence countries' decisions to join ARC or buy a policy. These issues provide context for EQ3 on demand, and should be read alongside the section on EQ3. It should be noted that Africa is highly heterogeneous and this material provides overarching perspectives.

A.1 Disasters relating to natural hazards

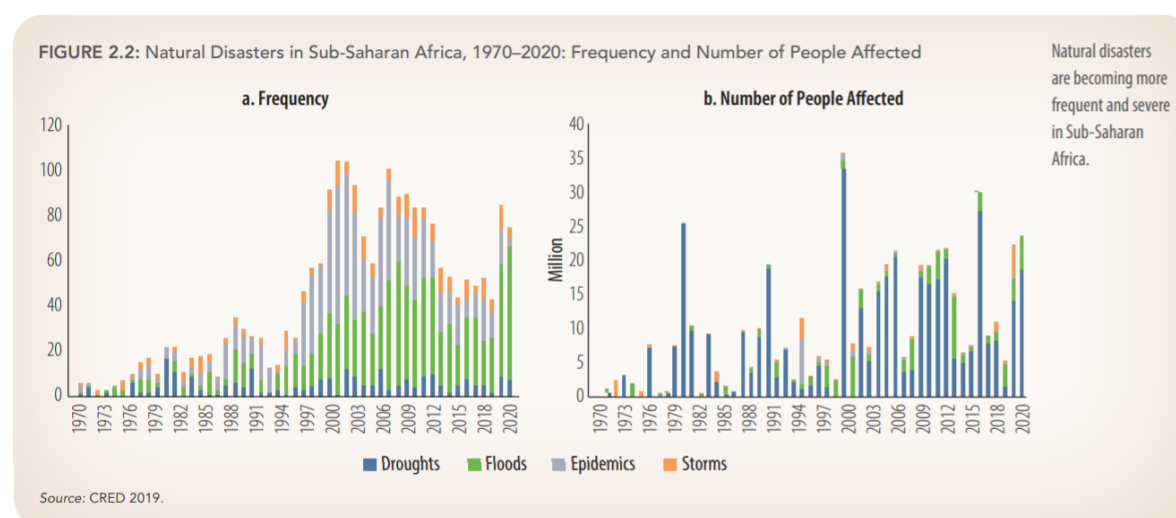
The frequency and intensity of disasters relating to natural hazards are high and increasing in sub-Saharan Africa, driven primarily by climate change, population growth, and urbanisation. Drought affects the largest number of people. Government responses are insufficient to address the challenge.

Disaster risk in Africa is driven by the interaction of the severity and frequency of hazards (primarily droughts, floods, storms, and cyclones) with rapid population growth, urbanisation (including informal land usage), and poverty (UNDRR, 2020).

Rising temperatures and changes in precipitation across many countries in sub-Saharan Africa are leading to **increasing frequency and intensity** of extreme weather events, and these are increasing at a faster pace than in the rest of the world: more than a third of the world's droughts and about a fifth of the world's floods took place in the region during the past decade (World Bank, 2021). Climate change effects are already being seen and will increase – see Figure 16.

Of all of the **people affected** by hazards in Africa from 2000 to 2019, most were affected by drought (80%), floods (16%), and storms (4%) (ReliefWeb, 2019). The number of people affected by droughts in sub-Saharan Africa increased from 19.3 million in 1970–79 to nearly 115 million in 2010–19, while in the case of floods it went from 3.5 million to 28.1 million – see Figure 16.

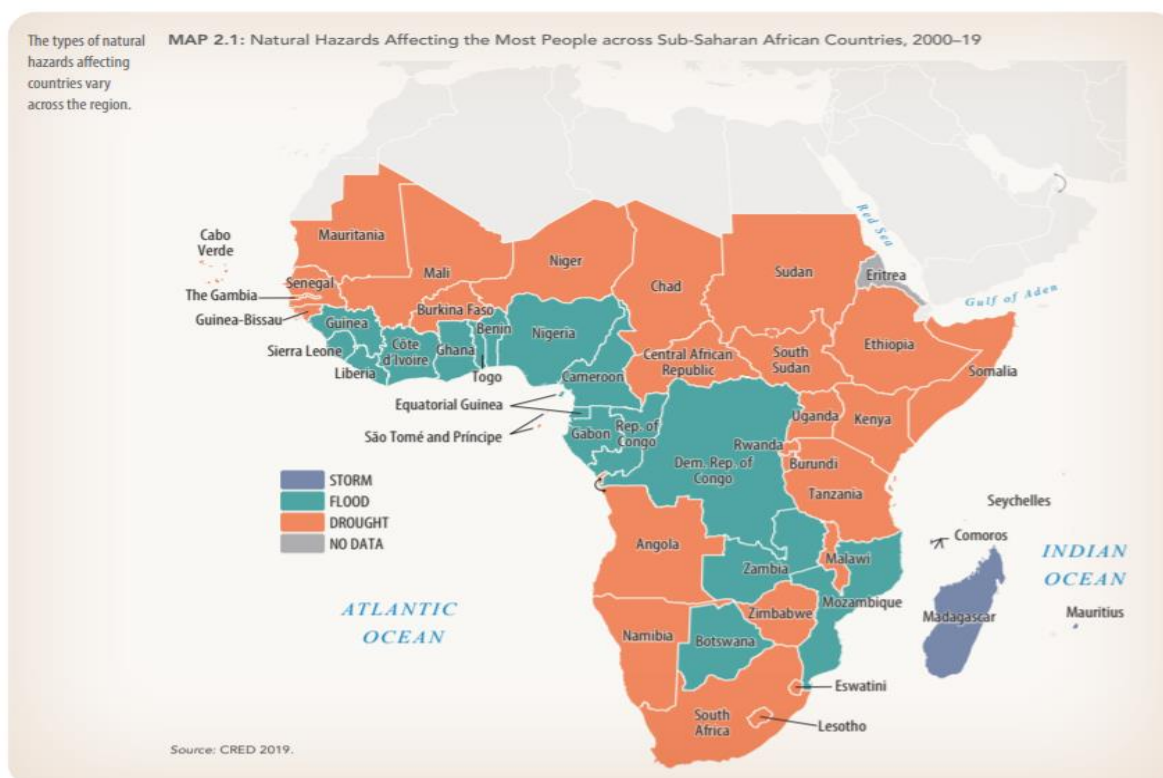
Figure 16: Frequency of natural hazards and numbers of people affected, 1970–2020



Source: World Bank, 2021

Going beyond the aggregates, the threat of natural hazards varies widely across the continent. Figure 17 below depicts the types of natural hazard affecting the largest number of people in each sub-Saharan African country over the past two decades.

Figure 17: Natural hazards affecting the most people across sub-Saharan African countries, 2000–2019



Source: World Bank, 2021

Box 3: Climate change – observed and projected impacts

The recent Intergovernmental Panel on Climate Change (IPCC) report (IPCC, N.D.), reports the following observed and projected changes for Africa:

- **Heat** – observed increases in hot extremes (including heatwaves) in all land areas of Africa and projected to continue throughout the 21st century with additional global warming (high confidence).
- **Sea level rise** – observed increases at a higher rate than global mean sea level rise, contributing to increases in the frequency and severity of coastal flooding in low-lying areas and to coastal erosion and along most sandy coasts (high confidence).
- **Rainfall** – the frequency and intensity of heavy precipitation events are projected to increase almost everywhere in Africa with additional global warming (high confidence).
- **Drought** – this varies across African regions in relation to climate change scenarios but most regions are expected to experience increased drought in some form (medium or high confidence).

These changes will have a range of impacts, including more frequent and more extreme weather events.

In response, UNDRR reports that countries in sub-Saharan Africa have dedicated significant efforts to the design of DRR strategies aligned to the Sendai Framework and to mainstreaming DRR in different policies. Nevertheless, in many countries, the rate of infrastructure development, regulatory structures, and risk management capacity has not kept pace so as to counter new risks associated with rapid population growth, urbanisation, and climate change. Domestic resources devoted to DRR activities are underfinanced: comprehensive figures are not available, but evidence from 16 African countries shows that, on average, only 1% of the national budget is directly dedicated to DRR interventions (UNDRR, 2020).

Box 4: Snapshot of disasters in Africa

While it is not possible to provide a comprehensive list of all of the disasters in Africa, it is clear that few of the disasters highlighted by the United Nations Secretary-General in his annual reports have been covered by ARC insurance. The summary from 2020 (United Nations, 2020) highlighted the following events:

Floods and landslides affected 7 million people and caused 1,300 deaths, the highest figure since 2006, with particularly severe impacts in Somalia, Ethiopia, South Sudan, Sudan, Burundi, Niger, and Chad.

Droughts affected a total of 13.4 million people across the Sahel, in particular in Burkina Faso, Mali, and Niger. Southern Africa continued to be affected by an ongoing drought that started in 2018, particularly affecting Madagascar, Mozambique, and Lesotho.

Cyclone Gati, estimated to be the strongest storm on record in Somalia, also exacerbated the worst outbreak of desert locusts in decades. **Tropical Storm Chalane** affected Madagascar, Mozambique, and Zimbabwe.

A.2 Economic context

Economic conditions have worsened since the Covid pandemic started in 2020, and national budgets are now tighter, hence we might have expected a drop in demand for ARC's policies. However, this has not happened – likely due to the introduction of premium subsidies.

Before the pandemic, the **economic outlook** for Africa as a whole was positive (with obvious provisos for the heterogeneity across the continent), with growth higher than

elsewhere in the world and gains in regard to poverty reduction (AfDB, 2021). However, 2020 saw the worst recession in more than 50 years, due to the pandemic, with GDP shrinking by 2.1% (AfDB, 2021). In such a tight fiscal situation, government expenditure has been focused on economic stimulus packages and health.

The economic damage from the pandemic is expected to be protracted (World Bank, 2021). **Economic recovery** requires effective roll-out of the Covid-19 vaccine, in order to reduce exposure to emerging strains of coronavirus. Yet most countries had failed to meet the vaccination goals of even 10% coverage by September 2021 (World Bank, 2021).⁴⁶ Covid-19-related restrictions clearly reduce economic activity, and during the third quarter of 2021 nearly 20% of countries were in nationally or targeted lockdown or had elevated restrictions due to the Delta variant, and, since then, the Omicron variant has emerged.

Public debt levels were already high pre-Covid-19, and the pandemic has caused a surge in government financing needs for fiscal stimulus packages. On average, the general government gross debt was projected at 71% of GDP for 2021, an increase of 30 percentage points of GDP since 2013 (World Bank, 2021), with 20 countries either in or at risk of debt distress⁴⁷ (AfDB, 2021).

African economies are particularly **sensitive to climate-related impacts** and disasters due to the vulnerability of their main engines of growth – agriculture, forestry, pastoralism, energy, tourism, and coastal and water resources (World Bank, 2021). A recent International Monetary Fund paper finds a significant negative impact of climate-related disasters on medium-term growth, with droughts having the strongest effect, possibly reflecting their prolonged nature, and due to the region's lack of resilience and its dependence on rain-fed agriculture. The impact of a drought is about three times larger in sub-Saharan Africa than in other emerging and developing economies. A disaster's intensity impacts medium-term growth more than its frequency (Pondi Endengle *et al.*, 2022).

A.3 International disaster funding

Humanitarian aid for climate-related disasters has been somewhat reduced by Covid-19 and the slow speed of international funding for drought (though not for cyclones) remains a critical problem.

Most **international funds** used in the immediate aftermath of disasters are provided to non-government humanitarian actors. Overall volumes of international humanitarian aid had been growing, but plateaued in 2019 and 2020, with support for non-Covid-19 humanitarian needs falling in 2020 (Development Initiatives, 2021).⁴⁸ This speaks to the fact that there is a limited humanitarian funding pot, and this is under stress when there are concurrent major crises – as can be seen now in relation to Ukraine and the very severe Horn of Africa drought.

Development and climate change funding – generally provided to governments – operate on much longer timescales. For example, between 2010 and 2019, the World Bank's Crisis

⁴⁶ As at mid-September, only 3.3% of Africa's population had been fully vaccinated – as opposed to more than half the population in industrialised countries.

⁴⁷ As at December 2020, of the 38 countries for which debt sustainability analyses are available, six were in debt distress, 14 were rated as facing high risk of debt distress, and 16 countries had a moderate risk of debt distress. Risk ratings increased in 2021 for Guinea Bissau and Uganda.

⁴⁸ Growing by an average of 12% per year between 2012 and 2018.

Response Window took an average of 398 days to release funds following a crisis event (Scott and Clarke, 2021).

For rapid-onset crises which have a strong ‘CNN effect’⁴⁹ (including major flooding and cyclones), humanitarian funding is often reasonably fast; however, **funding for drought** is much slower, despite the early warning (Crossley *et al.*, 2021). According to the first ARC CBA, it typically takes seven to nine months after a harvest fails due to drought before food or cash reaches those in need (Clarke and Vargas-Hill, 2013). A detailed study undertaken on the response to the 2016/7 drought in Kenya recognised that improvements had been made compared to previous years, but preventative action was either too little (from development actors) or too late (from humanitarians) to protect households from the impacts of the drought (Obrecht, 2019).

On the humanitarian side, there is a growing interest in, and commitment to, developing new ways to address the problems of slow crisis funding through ‘forecast-based financing’ and ‘anticipatory action’. These approaches hardwire grant funding into pre-prepared plans that will be triggered based on pre-agreed indicators (such as river levels for flooding). Success has been seen in various pilots around the world, mostly related to flooding and cyclones, but this currently remains small-scale.

The slowness of support to those affected by drought causes suffering and **increases the costs** of response; evidence from Nepal, Bangladesh, Kenya, and Ethiopia suggests that acting early can make crisis response up to three times more cost-efficient. Late response to the 2015/16 drought in Ethiopia cost donors an estimated additional US\$ 127 million in food aid alone (Scott and Clarke, 2021).

A.4 DRF landscape

Engagement by policymakers in DRF has grown substantially at the global level and in Africa in the last five years. The World Bank and ARC have been pivotal in achieving this shift in Africa. Despite this positive trend – of increased understanding and uptake of DRF measures – this is starting from an extremely low base and DRF is not yet institutionalised in most countries.

At the **global scale**, DRF has developed apace in the last few years, with the following developments:

- The creation of the **partnerships, initiatives, and funding** sources to support DRF. These include the InsuResilience Global Partnership, the InsuResilience Solutions Fund, and the Insurance Development Forum, all of which seek to promote and enable development insurance initiatives.
- Continuing **policy** debate on DRF in various fora, including the Sendai Framework on DRR and the Loss and Damage dialogue within the UNFCCC process. There is some pushback on insurance from a climate justice perspective – with questions raised about

⁴⁹ This refers to videos and images broadcast immediately after or during disasters, causing an outpouring of public sympathy and resulting in major financial donations from governments and individuals.

why countries should be paying for insurance for risks exacerbated by climate change to which they did not contribute – and subsidies offer a partial solution to this.

- Continuing interest in **regional risk pools** – CCRIF, PCRIC, ARC, and the recent launch of the Southeast Asia Disaster Risk Insurance Facility (SEADRIF) – with funding provided to all. Of these, CCRIF has been most successful, managing to grow in both client countries and to diversify its product portfolio. PCRIC and SEADRIF are both struggling with low demand.

Considering **DRF in Africa at the sovereign level**,⁵⁰ when ARC was founded, DRF as a concept was not well understood. This has started to change, with a general increase in understanding of and engagement on DRF in Africa, driven primarily by the work of ARC and the World Bank, and more recently by AfDB/ADRFi.

The World Bank has been extremely active on DRF in Africa for a number of years, through various projects. Box 5 below highlights a few of the World Bank's key programmes in this area (NB this is not an exhaustive list) and Figure 18 shows the breadth of activities of one key programme, ADRF. The World Bank spend on DRF in Africa dwarfs all other programmes and projects; it comprises the following (Financial Protection Forum, 2021):⁵¹

- DRF project components as part of other programmes – US\$ 565 million – a mixture of grants and loans; and
- technical investment provided through the GRiF (US\$ 31.5 million) and TA provided through other projects, including ADRF (US\$ 21.1 million) – grants.

⁵⁰ Other initiatives – such as the R4 Resilience initiative, VisionFund's ARDIS programme, the InsuResilience Solutions Fund, InsuResilience Investment Fund, Global Index Insurance Facility – focus on micro or meso level insurance.

⁵¹ A precise timeframe has not been given for this, but it is assumed to be from 2012 to 2021.

Box 5: A sample of World Bank DRF projects

The 2015–2020 ADRF programme (now closed), funded by the EU (ADRF, 2019). The operational components of this programme, and key achievements, were as follows:

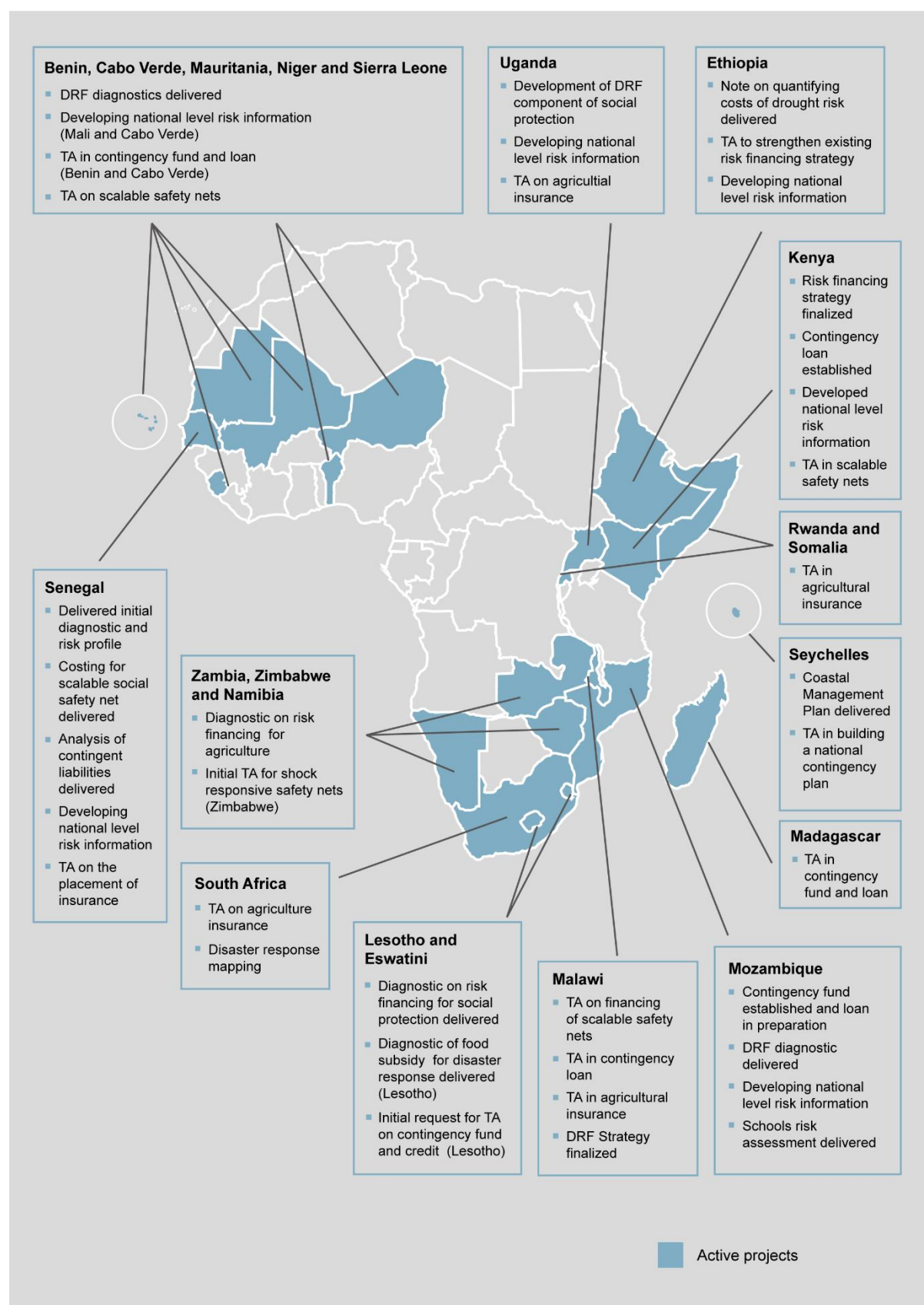
- **To create an enabling data environment for risk financing.** National risk profiles were completed for eight countries: Cabo Verde, Ethiopia, Kenya, Malawi, Mali, Mozambique, Niger, and Uganda.
- **To support countries in developing risk financing strategies.** Engagements in the development of DRF policies, instruments, and strategies were undertaken in 21 countries: Benin, Cabo Verde, Eswatini, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritania, Mozambique, Namibia, Niger, Rwanda, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Uganda, Zambia, and Zimbabwe.
- **To facilitate regional risk financing and knowledge sharing initiatives.** Over 80 knowledge exchanges and trainings were undertaken to contribute to building DRF capacity among governments of sub-Saharan Africa.

GRiF (GRiF, 2021). GRiF is funded by the UK and Germany and has been set up to provide finance and technical expertise to develop new pre-arranged financing instruments and help existing ones grow. This is achieved primarily by providing technical inputs on DRF schemes into larger World Bank programmes. In Africa, GRiF has active projects in Sierra Leone, Mozambique, and Malawi and is in ‘advanced scoping’ stage with Burkina Faso, Democratic Republic of the Congo, Rwanda, and Somalia. Malawi already has an ARC policy, and Mozambique is in the advanced stages of negotiations with ARC, so coordination or collaboration might ensure that work is most effective.

Horn of Africa – De-Risking, Inclusion and Value Enhancement (known as HoA-DRIVE): This project offers financial services (including savings and insurance) to pastoral households, building on existing micro-insurance products. ARC was invited to work on this, but Zep Re is providing services to this project. This project will likely be replicated in the Sahel region.

The **NGDI**, spearheaded by the World Bank’s Disaster Risk Financing and Insurance Program, supported by the International Research Institute for Climate and Society at Columbia University, and working with a range of partners, including ARC, is developing approaches and building technical capacity to strengthen risk models. Key features of this approach are as follows: co-design, allowing local decision makers to develop their own drought risk indicators from a wide selection of pre-processed data; using a convergence of evidence approach, rather than a single dataset; and enhancing the accuracy of predictors (Bavandi, 2021). The NGDI is developing most strongly in Senegal, which is a very well-established member of ARC, and work is also being undertaken in Morocco and Mozambique.

Figure 18: Summary of activities of the Africa Disaster Risk Financing programme, from 2015 to November 2019



Source: ADRF, 2019

The World Bank's work on DRF in Africa has led to real growth in the uptake of DRF mechanisms and approaches by African governments. Examples include the following:

- **DRF strategies:** DRF strategies clarify the risks faced by the country, lay out which financial mechanisms can be used to address each risk layer, and identify priorities to reduce financial risk. In 2017, no sub-Saharan African country had an explicit DRF strategy. Kenya's DRF strategy was agreed in 2018, Malawi's in 2019, and many others are now under production – including in Lesotho, Senegal, Benin, Mozambique, and Niger.
- **Catastrophe Deferred Drawdown Options (Cat DDOs)** are a World Bank product providing contingent credit. Once pre-conditions are met, they are agreed before the crisis and funding can be released when the government declares an emergency; they typically last for three years and can be renewed. Cat DDOs for International Bank for Reconstruction and Development countries have been available for some years, and for International Development Association countries were introduced at the end of 2016. Active Cat DDOs in Africa are for US\$ 10 million in Cabo Verde, US\$ 70 million in Malawi, and US\$ 50 million in Madagascar. Kenya's US\$ 200 million Cat DDO has been completely disbursed and is now closed, as is Seychelles' for US\$ 7 million. Several more are in the pipeline, including US\$ 90 million in Senegal.

ADRFi – the Africa Disaster Risk Financing (ADRFi) Programme – of the African Development Bank, seeks to strengthen the resilience of rural households to climate-related shocks by enhancing the capacity of the government to respond effectively. It provides premium subsidies and technical support⁵² and will initially run from 2019 to 2023. There are currently projects in nine countries: Gambia, Malawi, Mauritania, Niger, Sudan, Madagascar, Mozambique, Zambia and Zimbabwe. The mid-term review of ADRFi is currently underway.

In terms of **insurance**, knowledge and experience on climate/disaster insurance in Africa is continuing to grow – albeit slowly and mostly focused at the micro-insurance level – and there is now more competition in this sector than when ARC was set up. Insurers that underwrite micro or meso products could potentially provide this at sovereign level as well. However, currently only ARC is operating a regional risk pool at sovereign level, and so should be able to provide cover at a lower cost.

⁵² ADRFi is funded partly through the African Development Fund (the concessional loan window of the African Development Bank), and partly through a multi-donor trust fund.

Annex B Updated ToC

The original ToC was developed in partnership with ARC in 2016, but ARC has developed substantially since then – with changes in its strategy and management, and the introduction of ARC Replica, other insurance products, and premium subsidies etc. Thus, a critical activity for this evaluation was to update the ToC to properly represent how ARC sees itself.

The process started with a highly consultative process with ARC. A draft ToC was developed based on several days of meetings and workshops in Johannesburg in October 2021. This draft was shared with ARC and some comments were received. The subsequent draft was shared with donors and was discussed in a call with donors and ARC representatives.

The ToC developed through this process provides a high-level description of ARC's overall strategy and how it is expected to deliver ARC's objectives. It has both forward- and backward-looking elements. This ToC has been welcomed by ARC as a good representation of its work and the evaluation team has taken this as ARC's statement of how it sees its ToC.

In addition to this overall ToC, the evaluation requires more detailed sub-ToCs which focus on the main activities implemented to date and their expected results. The evaluation team therefore developed three backward-facing sub-ToCs, structured around the three strategic objectives, to meet these requirements.

This annex presents the ARC overall ToC, as developed in the initial consultation process. It presents additional underlying assumptions identified by the evaluation team, as well as other comments and recommendations on the overall ToC. It also presents the detailed, 'backward-facing' sub-ToCs required and developed by the evaluation team.

B.1 ARC's strategy and overall ToC

B.1.1 ARC's mandate and strategy

ARC began in 2012 as an effort to respond to recurrent drought-driven food insecurity in Africa. Droughts across the continent, growing awareness of climate-related risks to African countries, and the success of the Caribbean regional risk pool prompted African countries, WFP experts, and development partners to develop an African-owned regional risk pool. ARC is the only sovereign insurance pool in Africa, and the only one in the world that links payouts to pre-approved contingency plans.

ARC Agency is a Specialised Agency of the AU, tasked with the role of assisting AU member states to improve their capacities to plan, prepare for, and respond to extreme weather events and natural and other disasters, and to assist in the establishment of systems that enable African governments to protect populations at risk from such catastrophes. Its objective is to assist AU member states to minimise the risk of loss and damage resulting from such events by providing targeted responses to disasters in a timely, cost-effective, objective, and transparent manner. The overall impact expected is improved resilience of vulnerable populations, including women and children.

Since being founded in 2012, ARC's commitment to providing disaster risk solutions has seen a review of its processes in order to build robust disaster resilience on the continent. Its strategy outlines how, by monitoring the operating landscape, learning from past experiences, considering the needs of member states, and conducting extensive consultations with staff, partners, and subject-matter experts, the organisation seeks to align its programmes with national, regional, and continental development agendas.

ARC is intended to provide an African solution to some of the most pressing challenges of climate-induced natural disasters, and O&E. It is guided by a vision, mission, and goal, which form the three pillars that anchor the strategy – see Table 11. These reflect a commitment to gender mainstreaming and the core values of *integrity, service, innovation, and excellence*.

Table 11: ARC's vision, mission, and goal in the current strategy

ARC STRATEGY 2020–24 Innovate, strengthen, grow		
VISION	MISSION	GOAL
The development partner of choice leading innovative Pan-African DRM solutions for climate resilience in Africa	To promote harmonised resilience solutions for protecting African lives and livelihoods vulnerable to natural disasters caused by climate change and other perils of importance to the continent	ARC member states and their partners provide timely and targeted responses to protect the lives and livelihoods of vulnerable populations against natural disasters.

The 'ARC Group Strategy 2020–2024 refreshed' sets out three strategic objectives to steer the organisation towards its goal, as follows:

Strategic Objective I: To Innovate – A dynamic approach to research and development, and diversification of products and beneficiaries

Enabled by extensive Research and Development (R&D) and through its technical engine, *Africa RiskView*, ARC will develop innovative solutions with the objective of reducing costs, increasing reliability and building credibility as a disaster response agency. By partnering with established research institutions, credible universities and other professional service providers, ARC will continue to improve *Africa RiskView*'s functionality, offer improved products and better prepare Member States to deal with disasters. The strategy refresh confirmed the need for demand-driven product development; the importance of repositioning the O&E product to enable a more holistic ARC offering, and the need to advance the Group's approach to micro/meso insurance.

The expected results from the interventions under this objective are as follows:

1. Accurate risk modelling tools to reduce basic risk
2. Efficient and effective research and development
3. Efficient and effective CP development process that contributes to better disaster response
4. Enhanced peer-to-peer learning between Member States

5. Diversified insurance portfolio
6. Increase uptake of insurance (pool growth)

Key interventions being undertaken to achieve the expected results are the following:

- a. A focused research and development approach
- b. Drought model improvements
- c. Repositioning of O&E
- d. Model quality assurance
- e. Preparedness and contingency planning
- f. Demand-driven insurance products development
- g. Development of micro/meso insurance strategy

Strategic Objective II: To Strengthen – Strengthen Disaster Risk Management on the continent

By improving early warning systems, and streamlining country engagement and capacity building, ARC intends to strengthen disaster risk management in Africa. There is a need to harness a holistic approach to risk management in ARC Member States, ensuring a steady portfolio growth, including additional perils, and increased participation by Member States. In light of the Covid-19 crisis and the changing landscape, developing a solid virtual working strategy is a priority to address the technological challenges that have impacted the delivery of the ARC programme. A comprehensive knowledge management plan is also necessary to position ARC as a leader in the DRMF space, while a move towards Group reporting is another key priority that will support the organisation's Governance Reform goals.

The expected results from the interventions under this objective are as follows:

1. Better understanding of the value of ARC early warning tools
2. Better understanding of ARC risk modelling tools
3. Country ownership of the contingency planning tools
4. Increased uptake insurance
5. Improved understanding of ARC tools by TWG
6. Improved understanding of ARC product and mechanism by decision makers, parliamentarians and the media
7. Gender equality mainstreamed in disaster risk management and financing in ARC Member States

Key interventions being undertaken to achieve the expected results are the following:

- a. Early warning and preparedness
- b. Streamlined country engagement
- c. Capacity building
- d. Accountability and gender in DRM

Strategic Objective III: To Grow – Increase scalability and sustainability of ARC operations and insurance coverage

ARC's vision is to pursue growth through increased scalability and sustainability of its operations on the continent. Growth will stem from increasing membership in ARC, deliberate demand-driven product diversification, as well as increased and consistent risk transfer transactions. The strategy refresh process highlighted the importance of a move towards Forecast-based Financing for a more integrated offering to Member States, and of a comprehensive resource mobilisation strategy to ensure long-term funding and sustainability of the organisation

The following results are expected:

1. Institutionalise disaster risk management and financing within governments
2. Increased uptake of ARC insurance

With the intention of influencing the DRM policy framework of member states, ARC conducts the following interventions:

- a. Advocacy for Member State participation
- b. Supporting the move towards forecast-based financing
- c. Participation of humanitarian actors
- d. Providing incentives to Member States

B.2 ARC overall ToC refreshed

The updated overall ToC was developed based on the 'ARC Group Strategy 2020–2024 refreshed', a review of the previous ToC, and a two-day working session with ARC key staff in Johannesburg in October 2021. The OPM evaluation team reviewed and provided comments, which have been taken into consideration. Extensive consultation with donor groups took place and these provided comments and feedback that have led to the final draft of the ToC. This describes how ARC's current strategy is expected to work and reflects how its strategy and activities have changed since the original ToC was developed.

The ToC articulates the causal pathway by which interventions are hypothesised to deliver the intended outcomes and impact. It is an attempt to explain how the activities undertaken by ARC and its partners contribute to the chain of results that lead to the intended impact mandated by the AU. It groups ARC interventions under each of the three ARC strategic objectives and shows how they contribute to outcomes. Figure 19 shows a visual presentation of the overall ARC ToC.

a. ARC impact and long-term outcomes

ARC's goal is that member countries and their partners provide timely and targeted responses to protect the lives and livelihoods of vulnerable populations against disasters, and the impact that ARC is contributing to is the improved resilience of vulnerable populations, including women and children.

The long-term outcome that ARC seeks to contribute to is timely and cost-effective targeted responses to natural disasters and O&E, to protect lives and livelihoods. The two main outcomes contributing to this are i) improved capacities of member states to plan, prepare for, and respond to disasters; and ii) improved member states' capacity to integrate and mainstream gender in DRM and DRF.

b. Short-term and intermediary outcomes

ARC's two main intermediary outcomes are as follows: a) improved access to and affordability of ARC innovative tools and products by ARC member states; and b) an improved enabling environment that influences member states' adoption of DRM and DRF strategies.

These are the result of ARC interventions and activities that are linked to three interlinked short-term and intermediary outcomes, which are framed by the ARC strategic objectives. Activities under the 'strengthen' objective contribute directly to improved understanding, capacity, and ownership in relation to ARC products and tools.

The work done under the 'strengthen' objective is complemented by work under the other two strategic objectives:

- To innovate solutions, enabled by research and development, with the objective of cost reduction, increased reliability, and greater credibility for ARC, which leads to the short-term outcome that innovative and effective DRM tools and products are used by member states and ARC Replica partners, and gender is integrated into ARC activities and country DRM.
- To pursue growth, which leads to the short-term outcome that the scalability and sustainability of ARC operations and insurance coverage are increased.

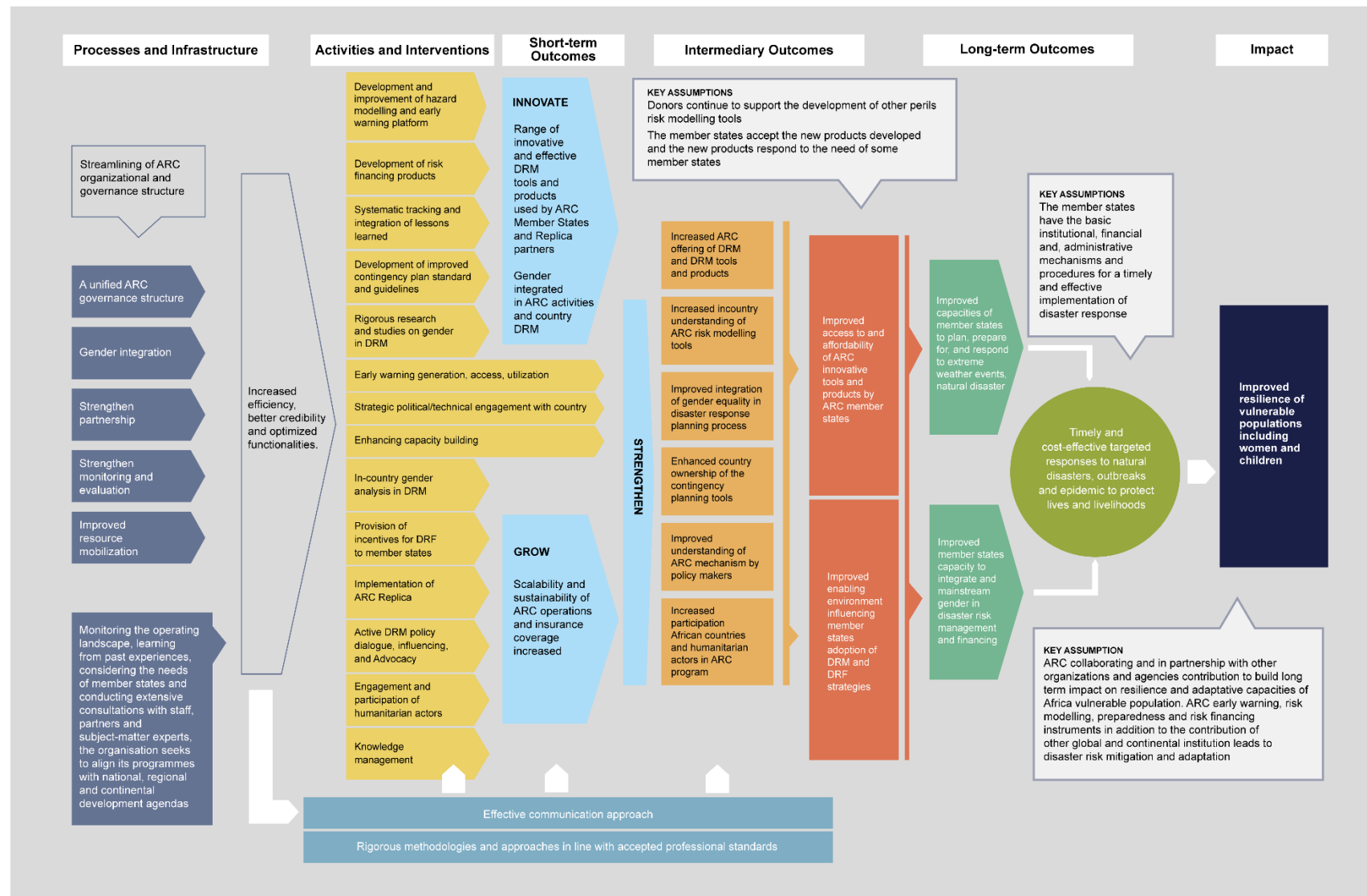
Although condensed into a single diagram, all three pathways should operate simultaneously and over multiple timescales.

B.3 Evaluation team developments

As noted above, the FE2 team reviewed the ToC as part of its work. The team identified additional assumptions that it believes are critical to the overall ARC ToC. The initial ToC development process also developed sub-ToC diagrams for the three strategic objectives outlined above. These were substantially revised by the evaluation team to meet the needs of FE2, with a focus on the main activities undertaken under each strategic objective by the time of the evaluation.

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Figure 19: ARC ToC refreshed



Overall ToC: key assumptions

The evaluation team identified a number of high-level assumptions that we believe underlie the overall ToC, in addition to those identified in the ToC diagram. Testing some of these assumptions, and/or their emergence through addressing specific evaluation questions, has been one element of the work of FE2. This has built on the work done for the previous ToC, but with presentation at a more summary level. FE2 has focused on the work done around country capacity development and sovereign insurance (largely drought). Other products and services which ARC is considering developing may have a different basis, and are not addressed here

Additional assumptions identified as underlying ARC's overall ToC include the following:

'Foundational' assumptions

- The actual and perceived benefits of risk pooling (= smoothing) outweigh the financial and other costs for sovereign governments because alternative sources of financing when a (relevant scale) disaster occurs are either too expensive, too costly in other ways (e.g. reallocation within government budgets from other priorities), too slow, or too unpredictable (appeals). AND (/OR)
- Other benefits of support from ARC outweigh the cost for sovereign governments or for the relevant actors within them, particularly 'speed' and 'targeting' benefits (i.e. better capacity, better plans, rapid availability of finance), and ARC oversight/support improves the delivery of emergency relief to those in most need of support ('institutional fixes').
- Increased control over early-phase humanitarian resources by sovereign governments, and correspondingly increased accountability for the humanitarian response, has value to both ARC member states and donors.
- ARC products meet a need that the market alone cannot or will not meet, and ARC does not distort markets that are already operating.
- Basis risk is understood by client countries and can be limited to an acceptable level.
- Gender considerations can be effectively integrated into ARC's operations and country planning and responses.

Inputs to outputs and short-term and intermediary outcomes

Structure, organisation, and capacity:

- The integration of ARC Agency and ARC Ltd provides an appropriate basis for complementary and coordinated activities.
- ARC Group is 'fit for purpose' overall, in terms of mandate, location, structure, governance, organisational capacities (including systems, processes, and staff), and cost structure.

Financing:

- ARC Agency and ARC Ltd have clear business models, with a reasonable prospect of long-term financial sustainability.

- There is sufficient, sustained demand for ARC insurance products (taking into account the expected role of subsidies).
- Donors have an incentive to finance ARC Agency, in so far as that is needed, and ARC is able to manage those relationships and meet agreed performance expectations.
- Defined and predictable finance streams for both ARC Agency and ARC Ltd are sufficient to operate effectively and at appropriate scale, and have sufficient predictability to enable ARC to configure itself with confidence.

Short-term and intermediary outcomes to long-term outcomes and impact

- Governments hold an appropriate portfolio of risk management instruments and partnerships, with insurance playing an appropriate role.
- The capacity developed by ARC includes sufficient and sustained capabilities in all dimensions required for effective and timely drought response, including planning, operational and financial management, selection of beneficiaries, delivery mechanisms, and monitoring and reporting.
- Member states have the basic institutional, financial, and administrative mechanisms and procedures in place for a timely and effective implementation of disaster response, complementing the capacity developed by ARC.⁵³
- ARV effectively identifies drought risk materialising, and payments are made promptly by ARC to eligible governments.
- Drought responses are implemented by country governments in line with approved plans.
- Gender is prioritised and is reflected in country plans and subsequent implementation.

Sub-ToCs

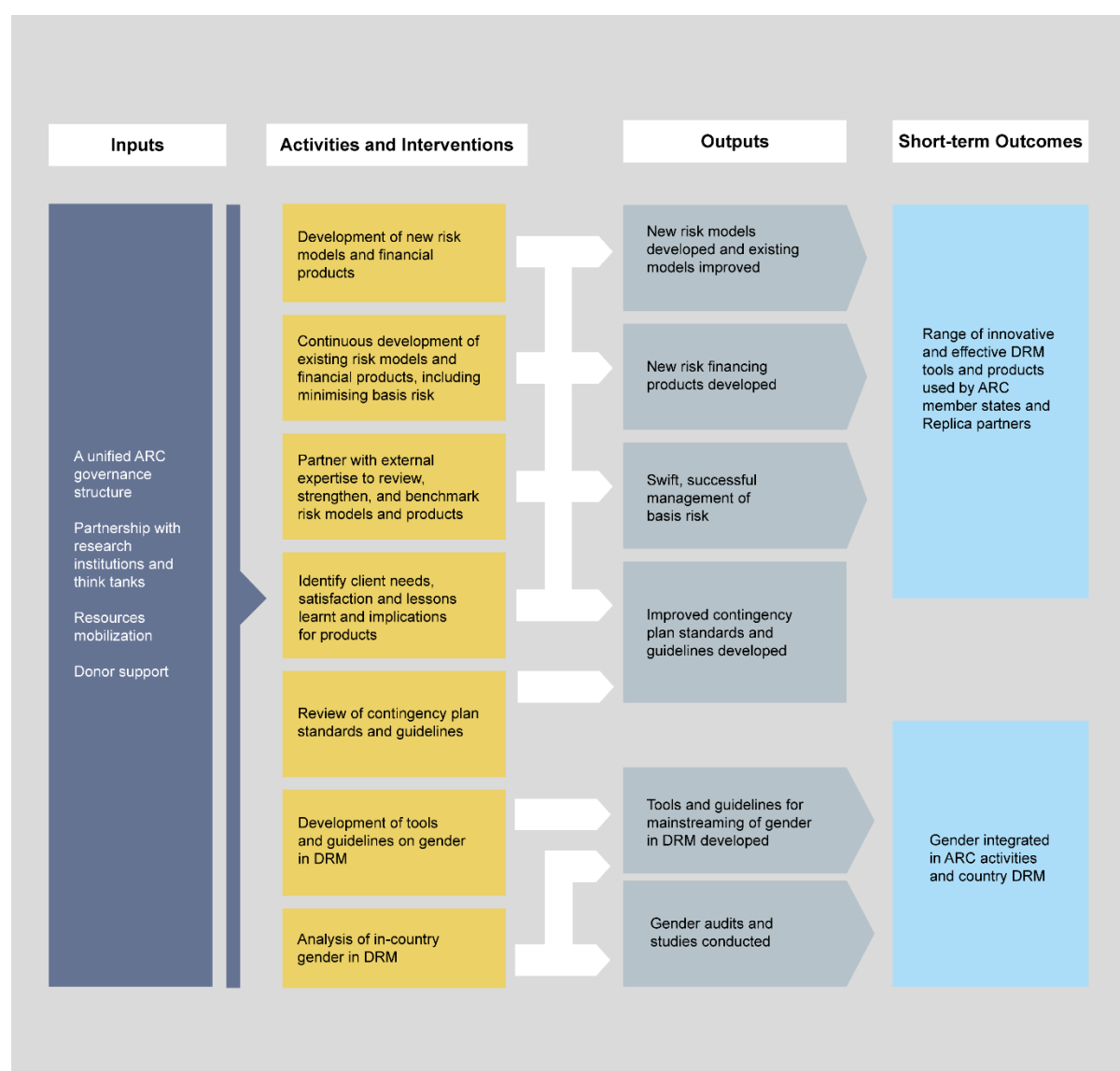
The revised sub-ToCs remain structured broadly around the three strategic objectives but represent the evaluation team's understanding of the main activities undertaken and outcomes expected to date.

Innovate

This sub-ToC focuses on ARC's activities to develop new insurance products and improve existing products. Work done to date has been focused particularly on sovereign products and ARC Replica.

The 'innovation' pathway is largely 'upstream': it focuses on the development of products and other outputs, which then feed into the 'grow' and 'strengthen' pathways. Hence this sub-ToC does not have its own intermediary outcomes but contributes to the intermediary outcomes for the other pathways.

⁵³ From the ToC diagram, with a clarification proposed as a final clause, because capacity built by ARC is part of the causal chain, rather than being an assumption.

Figure 20: Diagrammatic sub-ToC for ‘innovate’

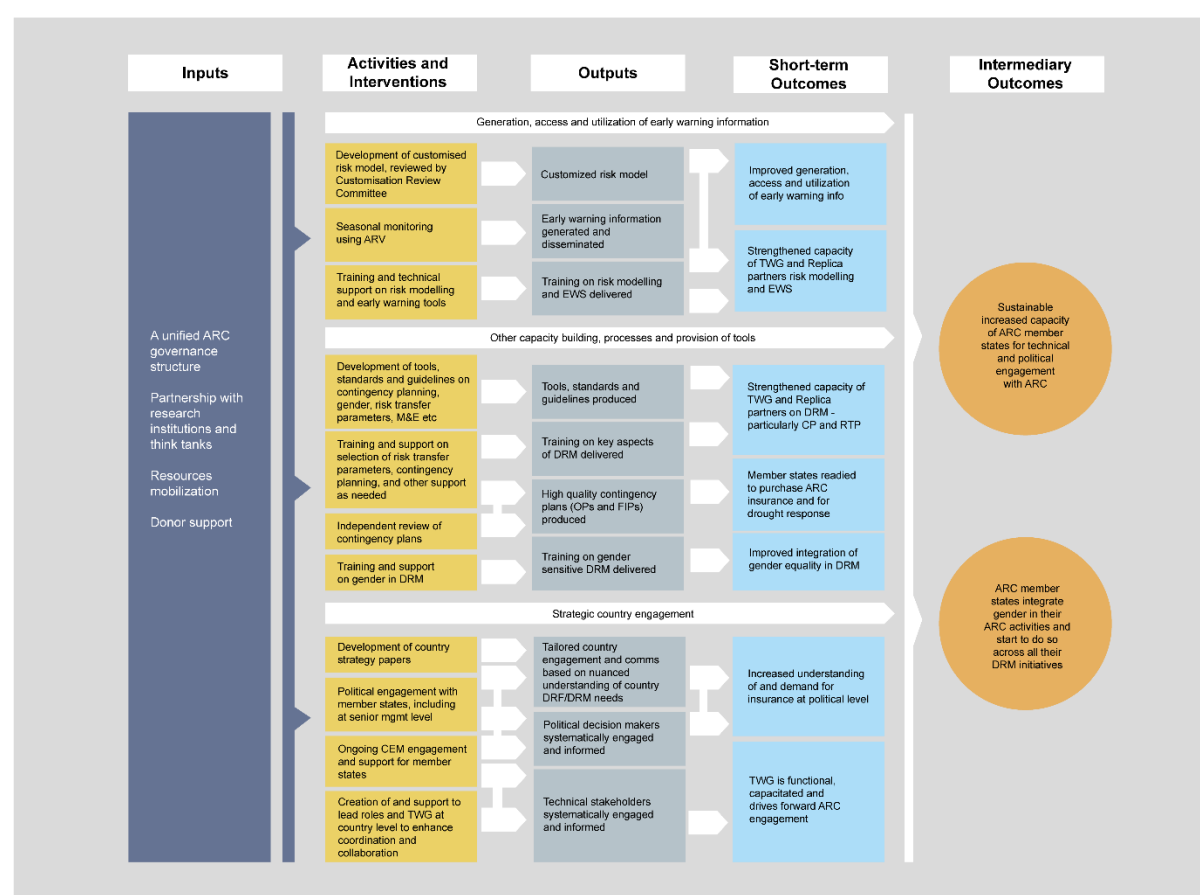
Key assumptions for this pathway include the following:

- ARC Agency has sufficiently effective relationships and communication with existing clients to identify and prioritise the improvements required in existing products.
- ARC Agency has effective mechanisms for understanding country needs and potential demand for sovereign insurance products, as well as those of other potential purchasers of products, which includes a realistic assessment of the total size of potential demand.
- ARC Agency has the right capabilities and finance to develop new/innovative and reliable products in a timely and cost-effective way in response to these opportunities and needs.
- The relationship between ARC Agency and ARC Ltd gives ARC Ltd sufficient influence over the insurance products developed.
- Effectively managed partnerships with other organisations enables ARC to access specialist resources that are not available in-house.

Strengthen

This sub-ToC focuses on ARC's country-level engagement to support the customisation and use of ARV, develop other drought planning and response capacity, and build political and technical understanding of, and support for, ARC products and services. The intermediary outcomes focus on the sustainability of this increased political and technical capacity, and specific capacity built on gender, both in relation to ARC and to DRM more broadly.

Figure 21: Diagrammatic sub-ToC for 'strengthen'



Key assumptions for this pathway are as follows:

Input to short-term outcomes:

- ARC risk modelling/ARV works effectively, is trusted, and is used.
- ARC is a good fit with existing Cadre Harmonisé / Vulnerability Assessment Committee and wider DRM systems, and is supported by other key actors at country, regional, and global levels.
- Effective and cost-efficient training approaches and materials are delivered by skilled staff in sufficient volume to increase functional knowledge.
- ARC staff have the time and skills to engage at a political level.
- ARC has the capacity to engage on wider DRM/DRF policy.

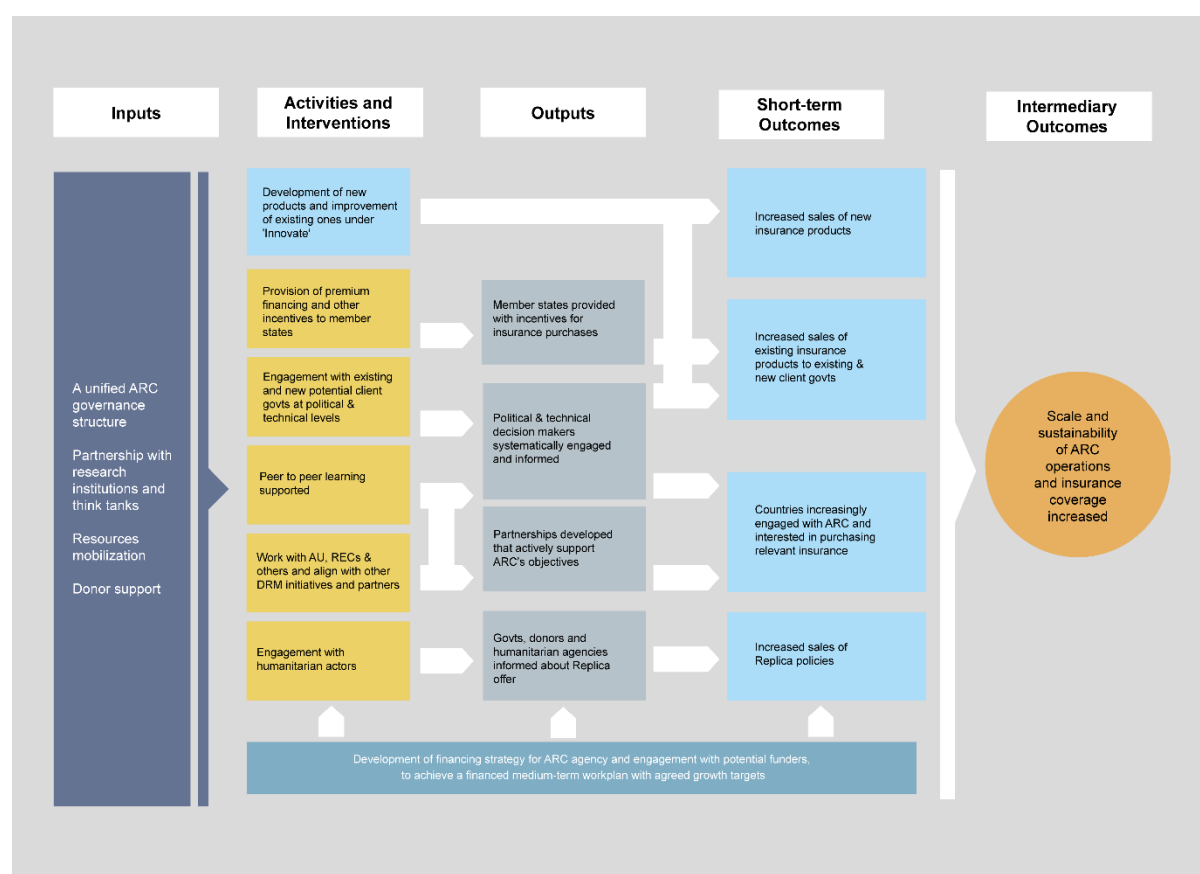
Short-term outcomes to intermediary outcomes:

- The ARC capacity that is built – including on gender – is seen as useful and is used by the country to strengthen their overall DRM systems
- Learning is retained and capacity is institutionalised due to staff remaining in post, or effective handover mechanisms.

Grow

This sub-ToC focuses on ARC's activities to increase interest in and demand for its services and sovereign insurance products. The intermediary outcome is an increase in the scale and sustainability of ARC's operations and sales of insurance within and beyond its current client base. New products and improvements to existing products feed into this results chain as outputs from the 'innovate' pathway.

Figure 22: Diagrammatic sub-ToC for 'grow'



Key assumptions for this pathway are as follows:

Input to short-term outcomes:

- Knowledge products and other engagement mechanisms are effective at creating interest, awareness, and demand.
- There is a sufficiently large number of new governments for whom the insurance products meet perceived needs at appropriate cost, and sufficient numbers of existing purchasers are retained.

- Increased technical and political-level understanding translates into timely authorisation of payments to purchase insurance.
- Premium subsidies are an effective short-term mechanism to build demand OR donors will continue to pay them as a mechanism for spending their humanitarian or development assistance budgets until countries are ready to graduate.
- The ARC Replica offer continues to be attractive to national governments, donors, and implementing partners.
- Existing and new clients trust the products (including ARV) and the organisation, with ARC managing expectations and basis risk incidents effectively.
- ARC Agency has the capacity to provide capacity development to governments for the new products.

Short-term outcomes to intermediary outcome:

- The aggregate effect of increased sales of existing and new products to existing and new clients is to grow total sales consistently and at a rate that is sufficient for ensuring ARC's sustained existence.

Annex C Evaluation matrix

Criteria	Evaluation question	Evaluation sub-questions	Revised question
Effectiveness	1. To what extent – and how – is ARC contributing to building systemic DRM capacity in member states to anticipate, plan, finance, and respond to climate-related disasters?	1.1. To what extent has ARC built the capacity of member states to plan, prepare for, and respond to insured risks?	
		1.2. To what extent is ARC contributing to the building of holistic national risk management strategies?	
		1.3. To what extent do the results of ARC's capacity building in member countries appear to be sustainable beyond its support?	
		1.4. To what extent is ARC achieving its objective of transforming DRM approaches to ensure equality for vulnerable men and women in member states?	
VfM	2. To what extent does ARC represent VfM for countries, beneficiaries, and donors?	2.1. How is ARC intended to provide VfM for countries, beneficiaries, and donors, and what are the critical factors that affect its potential to do so? (Theory-building)	
		2.2. To what extent is ARC performing as expected on critical factors that affect its potential VfM for countries, beneficiaries, and donors, and what improvements could increase the VfM of ARC? (Formative VfM)	
		2.3. [Only if additional funding permits] To what extent is ARC likely to provide VfM	To what extent is ARC likely to provide cost-effectiveness for countries, beneficiaries, and donors over the next five years?

Criteria	Evaluation question	Evaluation sub-questions	Revised question
		for countries, beneficiaries, and donors over the next five years? (CBA)	
Relevance	3. Is ARC establishing and increasing demand for its existing (and forthcoming) products and services?	3.1. Is ARC succeeding in growing sales in existing products, and the use of ARC Agency support, in line with expectations?	
		3.2. Are ARC drought insurance and ARC Agency support valued by member countries and ARC Replica partners, and what are the main factors that determine that view?	
		3.3. Is ARC undertaking activities that increase interest in and potential demand for services among member states?	
Sustainability	4. What is the likelihood of the longer-term sustainability of the ARC Group?	4.1. Does ARC's resourcing provide the right basis for sustainability?	
		4.2. Does ARC's institutional framework provide the right basis for longer-term sustainability?	

Detailed questions	Revision to detailed question	Assessment method	Source
1.1 To what extent has ARC built the capacity of member states to plan, prepare for, and respond to insured risks?			
To what extent and how is ARC being used as an early warning system?	To what extent and how is ARV being used as an early warning system?	<p>Number (%) of ARC-supported countries where ARV is the primary drought early warning system.</p> <p>Perception of blocks to, and enablers of, ARV being used as an early warning system, including a comparison with the alternatives.</p> <p>Examples of when ARV has triggered government/partner action before or in the absence of a payout being made.</p>	<p>Country Engagement Manager</p> <p>Government Coordinator</p> <p>ARC risk modelling lead</p> <p>Country risk modelling lead</p>

Are countries developing high-quality contingency plans?		<p>Review of outputs of TRC and Peer Review Mechanism.</p> <p>This will particularly draw out where the TWG is coordinating with a) other response actors in country and b) other government departments (notably food security and social protection).</p> <p>Evidence of ARC's (and ARC Replica's) role in the development of contingency plans and related capacity development relative to other actors.</p>	<p>Country Engagement Manager</p> <p>TWG KIIs</p> <p>TRC and Peer Review Mechanism reports</p> <p>KfW assessments</p>
Where there was a payout, did it lead to an effective timely response?		<p>Reports of factors that enabled and hindered a timely and effective response – considering the finalisation of the FIP, procurement, operational arrangements between government departments, liaison with partners, targeting, the date that disbursement started and ended, and comparison with ARC KPIs and the situation on the ground. (Where relevant) Reports of the role that ARC Replica played in supporting a timely response. Examples.</p>	<p>Process evaluations</p>
What are the constraints on ARC's capacity building?	(No change to this question, but it was moved to sit under EQ1.3, where the fit was better.)	<p>Analysis of triangulated reports of strengths and weaknesses of different capacity building approaches for a) technical and b) senior/political/financial government staff.</p> <p>Reports of constraints on capacity building, including the time available for core country staff to undertake their role; whether Government Coordinators' time is entirely devoted to ARC (as laid out in the workplan); long-term funding for Government Coordinator role; gaps in the core country team.</p>	<p>Country Engagement Manager</p> <p>Government Coordinator</p> <p>ARC leads: risk modelling, contingency planning, RTP</p> <p>Country leads: risk modelling, contingency planning, RTP</p>
Detailed questions	Revision to detailed question	Assessment methods	Sources
1.2 To what extent is ARC contributing to the building of holistic national risk management strategies?			
How effectively has ARC managed to support national governments to develop		<p>Number of countries supported, with details of support.</p>	<p>Country Engagement Manager</p>

holistic risk management strategies (i.e. beyond ARC's core business on contingency planning, risk modelling, and RTP)?		<p>Reports of contribution made by ARC to strengthening strategies for a) response and b) financing.</p> <p>Perception of countries of the value of ARC's input to broader DRM strategy (both specific input and organic spillovers – e.g. strengthened capacity in contingency planning for drought being used by the country for contingency planning for other perils). Examples.</p> <p>Background info: level of risk coverage provided by ARC, and any plans to increase this – with ARC or other instruments.</p>	<p>Government Coordinator ARC leads: risk modelling, contingency planning, RTP Country leads: risk modelling, contingency planning, RTP</p>
Detailed questions	Revision to detailed question	Assessment method	Sources
1.3 To what extent do the results of ARC's capacity building in member countries appear to be sustainable beyond its support?			
<p>Is there evidence that, over time, countries are requiring reduced input from ARC on</p> <ul style="list-style-type: none"> • contingency planning (OP and FIP) • risk model customisation • RTP • political engagement? 	<p>This question was simplified to become: 'Is there evidence that, over time, countries are requiring reduced input from ARC?' No change to the substance was made.</p>	<p>For longstanding ARC members:</p> <ul style="list-style-type: none"> - reports of country staff that direct input from ARC is reducing over time – with data where possible; - reports of ARC staff and government staff that country staff are taking a stronger role and have more ownership in production of contingency plans, customisation of model, choosing RTP, and political engagement – with examples. <p>Trends in the quality of contingency planning documents and levels of intervention required by the TRC and Peer Review Mechanism.</p> <p>Data on how many countries are able to use the 'payout calculator' without ARC Ltd support. If not, why not?</p> <p>Perceptions of key stakeholders that it will be possible for the capacity developed to be</p>	<p>Longstanding ARC members – Country Engagement Manager Government Coordinator ARC leads: risk modelling, contingency planning, RTP Country leads: risk modelling, contingency planning, RTP</p> <p>TRC and Peer Review Mechanism reports</p>

		sustained in future, without additional support. Why/why not?	ARC and country RTP leads: Country Engagement Manager Government Coordinator ARC leads: risk modelling, contingency planning, RTP Country leads: risk modelling, contingency planning, RTP
To what extent have supported countries institutionalised organisational capacity?		Evidence of use of ARC's SOPs, guidelines, tools on risk modelling, contingency planning, RTP, gender, and M&E. Evidence of lesson learning to strengthen implementation. Evidence of existing staff handing over to successor without ARC support. [Background info: length of time that core country staff have been in position.]	Government Coordinator Country leads: risk modelling, contingency planning, RTP
Does ARC have a training system that can build and sustain capacity in country at a reasonable cost?		Perceptions/reports of current successes and challenges of online model and effectiveness of online training in dealing with staff turnover. Identification of what support has to be provided in person. Whether there is a continual improvement plan/strategy for ARCAcademy. Data required: <ul style="list-style-type: none"> ongoing costs of in-person training and online training speed of completion of online courses feedback from users on ARCAcademy and in-person courses 	Country Engagement Manager Government Coordinator ARC leads: risk modelling, contingency planning, RTP Country leads: risk modelling, contingency planning, RTP

			ARC lead for ARCAcademy
To what extent can partners/other organisations provide ongoing support to member states – in the TWG and at the political level?		Level of skills and engagement in TWG from other partners/organisations. Ability of other organisations to support political engagement in country on ARC/DRF/insurance.	Country Engagement Manager Government Coordinator
To what extent is there a belief that ARC is the appropriate approach to address countries' risk management needs at different levels?		Perception of value in technical departments, decision-making in finance, ministerial, broader political support. Existence of 'knowledge champions' within key ministries that push forward ARC's thematic areas. Background info: number of times that political decision maker has changed in last five years.	Country Engagement Manager Government Coordinator
Is the financing of the ARC premium institutionalised?		Evidence that the ARC premium is a regular annual expense in a government department's budget.	Country Engagement Manager Government Coordinator Programme Supervisor
Detailed questions	Revision to detailed question	Assessment methods	Sources
1.4 To what extent is ARC achieving its objective of transforming DRM approaches to ensure equality for vulnerable men and women in member states?			
Are gender and vulnerabilities explicitly considered and incorporated in ARV customisation, OPs, and FIPs, with a particular focus on targeting?		a) Number (%) of countries that have explicitly incorporated women and vulnerable groups into their vulnerability profiles and other aspects of ARV customisation. b) Number (%) of OPs and FIPs that consider gender and vulnerabilities in relation to intervention choice, targeting methods, registration, verification, and distribution. c) Number (%) of OPs that received input from/consultation with representatives of vulnerable groups. d) Number (%) of FIPs that disaggregate impact data.	a) ARC and country lead for risk modelling b),c),d) ARC and country lead for contingency planning and document review

Are core country staff committed to, and capable of, incorporating gender and other vulnerabilities in their ARC operations?		<ul style="list-style-type: none"> a) Perception of key country staff of relevance/importance of gender and other vulnerabilities in their ARC operations. b) Whether country staff have completed training on gender and vulnerabilities for insurance and response – either from ARC or elsewhere. c) Perception of key country staff and ARC gender lead as to whether gender and other vulnerabilities have been adequately incorporated. Examples. What are the blocks to this? 	<p>Government Coordinator Country leads: risk modelling, contingency planning, RTP</p> <p>ARCademy records</p> <p>ARC gender lead</p>
Where payouts have occurred, is reporting undertaken to assess whether beneficiaries are as intended?		Number (%) of countries with M&E systems that can monitor distributions fully, including by disaggregating data.	Payout evaluations ARC M&E lead
Detailed questions	Revision to detailed question	Assessment method	Source
3.1 Is ARC succeeding in growing sales in existing products, and use of ARC Agency support, in line with expectations?			
Have the number and value of insurance sales grown in line with logframe targets?		<p>Trends in number of policies and value of sales (number, %).</p> <p>Comparison of trends to date with intended growth (past and 2020–24).</p> <p>Breakdown of composition of sales by type of product and type of actor.</p>	ARC documents
Has support from ARC Agency to member states grown in line with expectations?		<p>Trends in number of member states with Certificate of Good Standing.</p> <p>Trends in number of ARC member states using ARC tools in their national early warning systems.</p> <p>Comparison of trends to date with intended growth (past and 2020–24 logframe).</p>	ARC documents
What are the main factors that appear to be driving these trends?		<p>Triangulated analysis of key stakeholder perceptions.</p> <p>Analysis of data from Q3.2 and Q3.3, below.</p>	Chief Operating Officer (COO) of ARC Agency and ARC Ltd, Chief Underwriting Officer

Detailed questions	Revision to detailed question	Assessment method	Source
3.2 Are ARC drought insurance and ARC Agency support valued by member countries and ARC Replica partners, and what are the main factors that determine that view?			
Do ARC member states consider ARC drought insurance to be good value?		% of member states reporting insurance to be relevant, appropriate, and good value.	ARC member states (Programme Supervisor, Government Coordinator)
What are the main factors that determine that view?	This question was combined with the next question on factors that drive decisions to purchase drought insurance.	Summary of main factors reported by KIIs considering (potentially) purpose/perceived relevance, price and subsidy, value and timeliness of payouts, comparison with alternative products, support from ARC Agency.	ARC member states (Programme Supervisor, Government Coordinator)
What are the main factors that drive decisions to purchase drought insurance?		Summary of main factors reported by KIIs to determine purchase/non-purchase, considering factors as above, plus broader factors (e.g. political support).	Policy holding governments (Programme Supervisor); Non-policy holding governments with Certificate of Good Standing (Programme Supervisor);
Is ARC Replica insurance considered to be good value? What are the main factors that determine that view?	This question was moved in sequence to after the next question about the value placed on ARC products and services, but there was no substantive change.	Summary of main factors reported by KIIs to determine value of ARC Replica insurance.	Replica financing donors: KfW and USAID Replica partners: WFP and Start Network
How valuable do member countries view the following products and services offered by ARC?		% of member countries that view each product/service from ARC (listed below) as <i>valuable</i> or <i>very valuable</i> ⁵⁴ in their efforts to manage and finance disaster risks:	Representatives (Programme Supervisor, Government Coordinator) from

⁵⁴ Using a Likert scale of 1–5, for example, with explanations for each answer.

		<ul style="list-style-type: none"> a. capacity building for risk modelling, contingency planning, and RTP b. ARV to quantify risk and support DRM c. contingency planning to support response d. insurance to financially manage risk 	member countries with MoU
Detailed questions	Revision to detailed question	Assessment method	Source
EQ 3.3 Is ARC undertaking activities that increase interest in and potential demand for services among member states?			
What types of outreach and marketing activities has ARC used to engage member states to take up ARC's capacity building programme and insurance products? Do these outreach activities appear to be effective?		<p>ARC respondents describe and provide evidence of process for generating engagement and country responses.</p> <p>Member countries report activities to be successful in engaging relevant stakeholders.</p>	ARC country strategies; ARC representatives; representatives from member countries with and without ARC policies
Is ARC working effectively in partnership with other organisations in order to build demand?		<p>ARC respondents describe and provide evidence of work done to generate engagement and country responses.</p> <p>Donors, AU, AfDB, and other respondents report similar ARC engagement and results.</p>	ARC country strategies; ARC representatives; Donors, AU, AfDB, and other respondents
Detailed questions	Revision to detailed question	Assessment method	Source
4.1 Does ARC's resourcing provide the right basis for sustainability?			
To what extent and under what circumstances will ARC donors continue to support ARC in terms of capital, ARC Agency costs, and premium subsidies?		Summary of donor reports and perspectives on their likely continuing interest in funding ARC, including any conditions and limitations.	All ARC donors
What is the likely contribution of ARC's growth plans (the 2020 Inclusive Growth Strategy and subsequent developments) to sustainability?		<p>Evidence of explicit strategy/plan to phase out donor funding and pay back loan. Perceptions of its viability.</p> <p>Assessment of viability of ARC's Inclusive Growth Strategy.</p>	<p>ARC documentation</p> <p>COO of ARC Ltd and ARC Agency</p> <p>Donors</p> <p>ARC Board</p>

		Evidence that products under development will create growth in the near term – review of results from pilots and business cases. Evidence that prospective products/initiatives will create growth in the near term – review of business cases.	External insurance experts
Are there any constraints on sustainability in relation to ARC's capabilities?		Triangulated analysis of reports on key constraints – including in relation to time and skills of people, and technology, systems, and processes of the organisation – and whether the organisational reform programme is designed to address these.	ARC senior management team Donors
Is ARC developing the right partnerships to enable it to achieve its goals?		Evidence of strong and weak partnerships with organisations identified as strategic/key partners; gaps.	COO of ARC Ltd and ARC Agency, AU Donors World Bank
Detailed questions	Revision to detailed question	Assessment method	Source
4.2 Does ARC's institutional framework provide the right basis for longer-term sustainability?			
To what extent does ARC have a clear and coherent mandate, mission, long-term strategy, short-term strategy, and prioritised plan of action?		Evidence of mandate, mission, long-term strategy, short-term strategy, and prioritised plan of action, with resources specified. Assessment of strengths and weaknesses. Assessment of ARC's fit with broader ecosystem.	Documentation COO of ARC Ltd and ARC Agency AU Donors Board External insurance expert
Are there any constraints on sustainability in relation to institutional arrangements?		Analysis of triangulated reports on constraints – including in relation to governance, structure, WFP framework, location – and whether the organisational reform programme, and/or other initiatives, is designed to address these.	COO of ARC Ltd and ARC Agency AU Donors Board External Insurance expert
Are there any constraints on sustainability in relation to learning?		Analysis of triangulated reports of ARC staff on constraints – including in relation to M&E, learning culture, lesson learning, and	COO of ARC Ltd and ARC Agency ARC M&E lead ARC Technical leads

		adaptation of products/programmes/approaches.	
To what extent does ARC have buy-in and support from its key stakeholders?		Reports/perceptions from key stakeholders (AU, member states, WFP, Start Network, donors, AfDB). Including any constraints around transparency and accountability.	AU member states WFP, Start Network Donors AfDB

Annex D Details of the VfM assessment

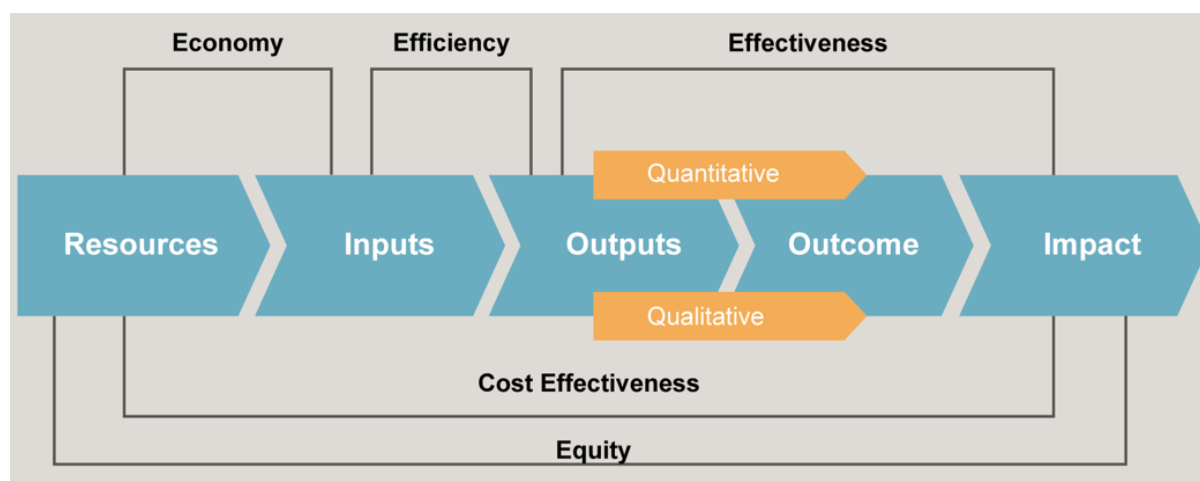
D.1 Approach to VfM

VfM relates to the good use of resources, ideally delivering the maximum benefits possible for a given amount of expenditure. VfM is about more than minimising overheads and unit costs. To deliver real VfM, a programme needs to think not just about procurement and financial controls, but also about how it designs and implements activities, how it allocates resources across the programme, and to what extent and how equitably it is achieving its intended outcomes and impact.

As set out in the ARC VfM framework document, our approach is based on the '4E' conceptual framework developed by FCDO and combines cutting-edge evaluation practice to meet donors' requirements for accountability and good resource allocation and support reflection, learning, and adaptive programming. The '4E' conceptual framework disaggregates VfM by reference to three different levels or dimensions – economy, efficiency, and effectiveness – which also correspond to different levels of the programme results chain. Overall, VfM is captured by cost-effectiveness – i.e. the high-level impact delivered relative to the amount spent – and the fourth 'E', equity, which examines the extent to which the programme results reach poor and marginalised groups.

This VfM assessment will not cover cost-effectiveness since that is being addressed through a separate CBA study.

Figure 23: VfM conceptual framework



D.2 Methodology

We use an evaluative approach to VfM, which assesses how well resources are used, and whether they are being used well enough to justify the investment. This approach requires defining what would constitute good performance and VfM, which thus provides greater transparency in the assessment and reporting of VfM. These definitions are developed before evidence is collected, providing an agreed basis for making evaluative judgements about ARC's performance and VfM.

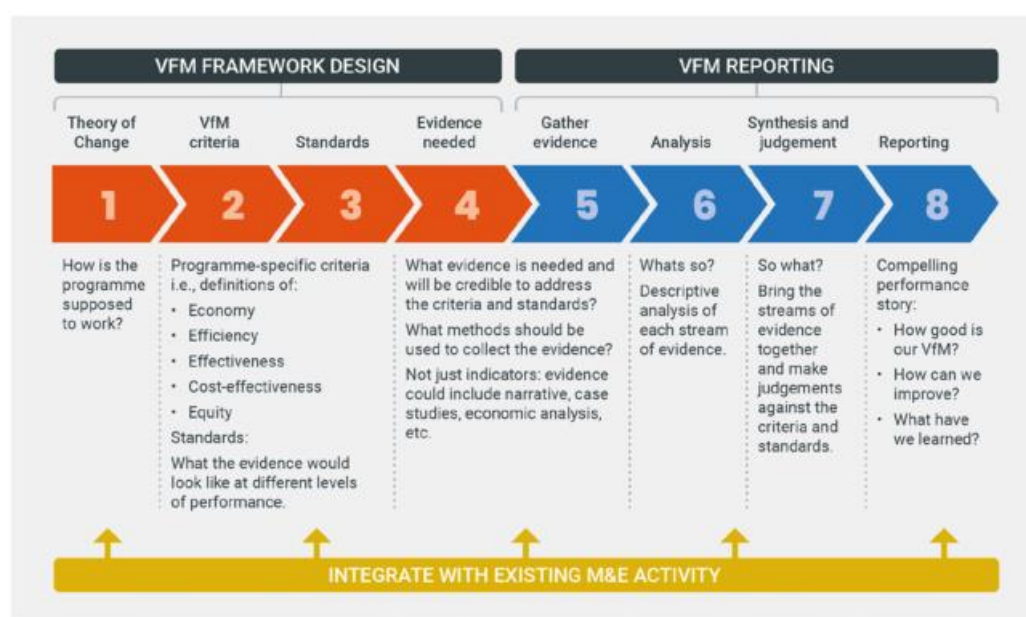
These definitions of good performance and VfM are set out in *rubrics*. A rubric is a matrix of criteria (aspects of VfM) and standards (levels of VfM). The criteria are ARC-specific definitions of economy, efficiency, effectiveness, and equity, focusing on critical aspects of ARC's performance that affect ARC's potential to provide VfM. Standards provide definitions of excellent, good, adequate, and poor performance against each sub-criterion.

We use a mix of quantitative and qualitative evidence to support the VfM assessment. Indicators make a valuable contribution to assessing performance and VfM, but on their own are insufficient to support nuanced evaluative judgements. Broader contextual evidence, including narrative evidence, is used to provide additional information and to support appropriate interpretation of the indicators.

D.3 Approach

OPM's approach to VfM assessment follows a stepped approach, first designing the VfM framework (Steps 1–4, Figure 24) and then conducting and reporting on the VfM assessment (Steps 5–8).

Figure 24: Our step-by-step VfM approach



The assessment should be read in conjunction with the ARC VfM framework for FE2. The VfM framework was developed in the early inception phase of FE2. Draft VfM sub-criteria based on key programme documents were discussed with ARC and donor representatives in two separate workshops, in December 2021 and January 2022, respectively. These were further refined in February and early March 2022, to align with the other FE2 components and to incorporate additional feedback from ARC and donor representatives.

The sub-criteria in the framework (shown in the table below) were selected based on their ability to collectively cover the most important aspects of VfM for ARC. They reflect the key steps along the impact pathways in the ARC ToVC, which is described in the main body of the report. Our assessment reflects the VfM ARC provides from the perspective of different sets of stakeholders (countries, beneficiaries, and donors). These perspectives are shown in the last column in the table.

Table 12: VfM sub-criteria

VfM criteria	Sub-criteria	VfM perspective (countries, beneficiaries, donors)
(1) Economy	1.1. Capital, reinsurance, and running costs are kept as low as possible	Donors
	1.2. ARC offers relevant, well-priced products	Countries
(2) Efficiency	2.1. Accurate prediction of relevant drought events	Countries
	2.2. Reliability and timeliness of ARC payouts	Countries
	2.3. ARC provides high-quality TA and capacity building support to countries to improve drought preparedness	Countries
(3) Effectiveness	3.1. ARC support to enhanced contingency planning and capacity building contributes to timely and appropriate drought response	Countries
	3.2. ARC-funded drought response reduces negative household-level coping strategies	Beneficiaries
	3.3. ARC successfully facilitates increased sovereignty and sustainability in country-level risk planning	Countries, donors
(4) Equity	4.1. ARC-funded drought response support reaches the people who are most in need	Beneficiaries

D.4 Scope of the assessment

As this VfM assessment is formative in nature, it is intended to provide a snapshot of current VfM performance, together with insights into how VfM performance can be improved going forward. To enable this snapshot assessment, the assessment focuses on ARC expenditure, activities, and results achieved since the start of 2020. Note that we include countries with payouts in 2019, as ARC-supported activities from these payouts continued into 2020 and so falls within the reference period.

The assessment focuses on ARC's support to sovereign governments provided by ARC Ltd. It does not cover support to non-state actors provided by ARC Replica, although reference is sometimes made to ARC Replica partners for comparative purposes.

D.5 Sources used

The sources of evidence used for this assessment include:

- key programme documents provided by ARC;
- independent evaluations of payouts commissioned by ARC;
- financial data provided by ARC;
- information reported in the broader formative evaluation; and
- interviews with key informants conducted as part of the formative evaluation.

Where possible, in order to provide a concise VfM report, clear reference is made to other evaluation outputs, existing programme indicators, and other relevant narrative evidence in key programme documents, without repeating large sections of existing documents.

D.6 How we make VfM judgements

In a formative evaluation, a separate rating is given for each sub-criterion, in order to identify strengths and areas for improvement. Overall performance and VfM can also be assessed by aggregating the individual ratings.

Generally, all the standards at a given level and below it must be met. For example, to merit a judgement of 'good', all standards for 'good' and 'adequate' must generally be met. However, the judgement is ultimately a reflection of the totality of the evidence presented, such that a small shortfall at one level may be cancelled out by achievement at a higher level. We show whether a standard has been 'met' or 'not met' in the standards table, so that judgements are transparent, traceable, and challengeable.

For the purposes of this assessment, 'adequate' is considered just good enough in terms of VfM, while 'poor' performance represents 'failure' in terms of VfM.

D.7 Findings (formative VfM)

(1) Economy

According to the FCDO definition, economy is concerned with the cost and value of inputs:

'Are we or our agents buying inputs of the appropriate quality at the right price?'
(DFID, 2020, p. 3)

Value maximisation means buying the right inputs, of the right quality, at the right time and price, to maximise outcomes and impacts. Potentially this includes identifying opportunities to invest a little more in order to achieve a disproportionately greater gain in VfM. For this reason, we will balance analysis of costs with the assessment of ARC's efforts to maximise value through good cost management and other acceptable practices, and we will place cost analysis in context, with the qualitative explanation of variation in costs against expected parameters.

The following sub-criteria, aligned with the ToVC, are used for the economy criterion:

(1.1) Capital, reinsurance, and running costs are kept as low as possible.

(1.2) ARC offers relevant, well-priced products.

(1.1) Capital, reinsurance, and running costs are kept as low as possible

Ensuring capital, reinsurance, and running costs are kept as low as possible is a key dimension of VfM because minimising the unit costs of inputs is a necessary (but not sufficient) condition for maximising VfM. However, it is important to note that it is not optimal (or possible) to reduce these costs to zero, and also that the optimal level of reinsurance will depend on the level of capital.

It is also important to account for the specific context of ARC when comparing its costs to other organisations. For example, as an organisation receiving funding from multiple donors, ARC Agency is required to spend significant time responding to multiple donor requests, which will increase running costs relative to an organisation with just one set of donor reporting requirements. Another consideration is that due to its organisational setup, some running costs (e.g. salaries) are set in line with WFP salary scales, which may reduce flexibility to minimise some costs, but can also bring additional benefits.

Table 13: Economy performance standards (1.1): capital, reinsurance, and running costs are kept as low as possible

Standard	Definition	Standard met?
Excellent	Running costs and capital costs are minimised and levels of reinsurance are optimal:	
	• Capital costs are significantly less than the level appropriate for a comparable organisation (\leq US\$ 500,000) (Kramer <i>et al.</i> , 2020, p. 22).	Met
	• % reinsured is \leq 15% (Kramer <i>et al.</i> , 2020, p. 22) of total expected payouts, or there is a clear justification for why it is higher.	Not met
	• ARC Ltd % operational costs are \leq 5% (Kramer <i>et al.</i> , 2020, p. 22) of total premium volume.	Not met
Good	• ARC Agency overhead costs are better (lower) than comparable organisations.	Not met
	Costs minimised and/or controlled:	
	• Capital costs are similar to or less than the level appropriate for comparable organisations (\leq US\$ 2 million). ⁵⁵	Met
	• % reinsured is \leq 20% of total expected payouts, or there is a clear justification for why it is higher.	Met
Adequate	• ARC Ltd % operational costs are \leq 10% of total premium value.	Not met
	• ARC Agency overhead costs are similar to comparable organisations.	Met
	Costs are controlled:	
	• Capital costs are not significantly higher than the level appropriate for comparable organisations (\leq US\$ 3 million).	Met
Poor	• There is an approach for managing the level of reinsurance.	Met
	• ARC Ltd % operational costs are \leq 20% of total.	Met
	• ARC Agency overhead costs are similar to or slightly higher than comparable organisations.	Met
	Criteria for 'adequate' not met.	N/A
Overall judgement: Adequate		

⁵⁵ The US\$ 2 million benchmark is based on the estimated capital costs of an insurance company with a similar level of premiums (assuming US\$ 20 million capital required and investors expecting a 10% return per annum = US\$ 2 million capital costs). The benchmark is an estimate and will likely require updating.

Table 14: Economy evidence requirements (1.1): capital, reinsurance, and running costs are kept as low as possible

Indicator/ evidence	Definition	Measurement approach	Source(s)
Capital costs	The cost of capital is the amount that ARC has to pay for the capital it holds. For most insurance organisations, capital costs could include interest due on borrowing or returns due to investors who have provided equity.		
	In addition, insurance organisations are often able to invest part of their capital to generate income, where they have a sufficient capital base to cover expected payouts in line with regulatory requirements. The effective investment of capital can therefore contribute to reduced overall capital costs.	<p>Quantitative and qualitative</p> <p>The VfM assessment should estimate the cost of capital held by ARC Ltd, including any gains made from investments.</p> <p><i>Capital costs = cost of capital – returns on investments</i></p>	<ul style="list-style-type: none"> - ARC Ltd finance reports and audited accounts - KILs with insurance experts
	Good economy is generally achieved by minimising capital costs, which in turn means that country member insurance premiums can be reduced.	The <i>cost of capital</i> includes interest paid on capital borrowed by ARC, payments due to investors, or similar. <i>Returns on investments</i> are the gains made on any investments as reported in the annual accounts.	
	It should be noted that ARC is in a relatively advantageous position as compared to many insurance organisations, since it was provided with a high level of capital via an interest-free loan provided by donors. However, as capital costs are a key cost driver for insurance organisations, one that ultimately impacts the cost of insurance for policy holders, and because the loan may be reduced over time, this remains a key economy VfM indicator.	A qualitative assessment of whether capital costs are being managed effectively should also be made if possible.	
Reinsurance levels	<p>ARC purchases reinsurance which reduces the risks associated with large claims being made in a given period. This protects the long-term sustainability of ARC and ensures ARC has reserves, which have other benefits.</p> <p>However, reinsurance increases costs relative to self-insurance and ultimately means insurance premiums become more</p>	<p>Quantitative and qualitative assessment</p> <p>The % of reinsurance should be calculated as:</p> <p><i>% reinsurance levels = reinsurance premiums / total expected insurance payouts</i></p> <p><i>(total expected insurance payouts = gross premiums / premium loading)</i></p>	<ul style="list-style-type: none"> - ARC Ltd finance reports and audited accounts - KILs with insurance experts

Indicator/ evidence	Definition	Measurement approach	Source(s)
	expensive for country members, thereby reducing the value proposition of ARC, and also reducing the ability of ARC to grow its capital.	<p>The original specification assumed that % reinsured would be no more than 15%. While this is likely to be the optimum level in terms of minimising costs and maximising gains for ARC, there may be justifications for why this is higher (for example, donor requirements to preserve capital or holding capital to attract further investment).</p> <p>Where the % of reinsurance is above 15%, the VfM assessment should provide an assessment of whether the business case for a higher level of reinsurance is adequate.</p>	
% operational costs (ARC Ltd)	The cost-effectiveness of ARC insurance is highly sensitive to the administrative and operational costs (Kramer <i>et al.</i> , 2020) of providing the insurance. Higher operating costs increase the costs of insurance premiums, which reduces the benefit–cost ratio to country members and donors, reducing overall VfM.	<p>Quantitative</p> <p>In the reporting period, the % operational costs should be calculated as:</p> <p>% operational costs = running costs / total premium volume</p> <p><i>Running costs</i> should be calculated as the ‘general and administrative running costs’ of ARC Ltd as per the annual accounts, less reinsurance costs. Other costs, such as capacity building, monitoring, and research and development, should not be considered as operational costs. This is because they are not financed by the insurance premiums paid by country members.</p> <p><i>Premium volume</i> should be calculated as the premiums actually paid to ARC by country members over the same reporting period.</p> <p>The initial CBA in 2012 for ARC noted an assumption that operational costs would be no more than 5% of premium volume (Clarke <i>et al.</i>, 2013). The % operational costs is therefore benchmarked against this.</p>	- ARC Ltd finance reports and audited accounts

Indicator/ evidence	Definition	Measurement approach	Source(s)
% overhead costs (ARC Agency)	<p>ARC Agency is fully funded by donors, and provides TA and capacity building support to member countries, as well as research and development activities to enable ARC Ltd to develop new products.</p> <p>As a prerequisite for delivering good VfM, ARC Agency should be minimising its overhead costs, which we define as the general and administrative running costs of the organisation, over and above the costs of delivering its services.</p>	<p>Quantitative</p> <p>In the reporting period, the % overhead costs should be calculated as:</p> <p>% overhead costs = running costs / total cost</p> <p><i>Running costs</i> should be calculated as the 'general and administrative running costs' of ARC Agency, as per the annual accounts.</p>	- ARC Agency finance reports

Detailed evidence considered for judgement against this sub-criterion

Capital costs

ARC Ltd has a 20-year, interest-free loan of approximately US\$ 100 million. It has to keep some of this in low-yielding, very low-risk assets that it can use to pay claims if it needs to. But it can also invest part of the US\$ 100 million more actively and it earns around US\$ 1.8 million per year by doing so.

This arrangement is very different to that of commercial insurance companies, which would be financed by private investors, wholly or mostly from equity. They would put in significantly less than US\$ 100 million – conservatively, we estimate they would put in US\$ 20 million. This would have to be kept in low-yielding, very low-risk assets to back up claims, so such companies would not be able to actively invest any excess capital to yield an investment income. The equity investors would also expect a return: conservatively, we can estimate this at 10%, or US\$ 2 million per year.

This means that ARC Ltd's capital costs are effectively negative (i.e. -US\$ 1.8 million per year), which should be compared to a conservative counterfactual of US\$ 2 million per year. In other words, ARC Ltd's capital costs are very low (negative), because the very large interest-free loan effectively represents a substantial subsidy to these costs, equivalent to at least US\$ 3.8 million per year. As acknowledged in the 2022 CBA, while ARC does not pay for its capital, there is a real opportunity cost and a shadow market value. As suggested, this should be modelled in a complete social CBA, which would also include the de facto capital subsidy.

ARC Ltd operational costs

In 2021, ARC Ltd's operational costs were an estimated 14% of total premium value. This exceeds the 5% target as set out in the original specification. ARC Ltd reports a consistent effort to keep operational costs below budget by deferring recruitment and other expenditure, and as a result has underspent against its operational budget. However, ARC Ltd also reports that in doing so its staff have become overstretched, which indicates that this approach is unsustainable. In absolute terms, ARC Ltd's operational costs were budgeted to

be US\$ 4.1 million in 2021, of which US\$ 1.6 million⁵⁶ was for executive management and administration, for an organisation of around 12 employees. These absolute operational costs are substantially more than CCRIF (CBA 2022, p.36). CCRIF has a much larger operation than ARC, as it provides three different policies and issued 63 policies in 2020–21. While operational costs for insurance organisations may be relatively fixed, comparison of administrative expenditure⁵⁷ between ARC and CCRIF shows that ARC Ltd's spend on executive management and administration was more than double (over 127%) that of CCRIF. ARC Ltd also spent double the amount CCRIF spent on insurance and legal fees. This suggests that ARC Ltd's operational costs are too high relative to its size, and as a percentage of premium value. This ultimately means more expensive premiums and less VfM for countries.

Reinsurance costs

In 2021, reinsurance premiums (US\$ 17.8 million) as a percentage of total expected insurance payouts (US\$ 22 million) was 81%, based on budgeted figures. This compares with an average of 50% in the previous years, varying between 36% and 67%. In total, to date ARC Ltd has paid out US\$ 53.6 million in reinsurance costs and has received US\$ 11.3 million in reinsurance payouts, US\$ 2.7 million of which was offset by commissions income on the reinsurance. In 2021, reinsurance costs were budgeted to be 60% of premiums (US\$ 29.7 million). A review of the CCRIF and PCRIC audited accounts indicates that both facilities have a similar range of reinsurance: 66%⁵⁸ and 52%,⁵⁹ respectively. This indicates that ARC's conservative approach may not be uncommon in regional risk pools. However, the optimal level of reinsurance is inversely related to the amount of capital held, and ARC Ltd holds an unusually high level of capital.

The original specification assumed that the percentage reinsured would be no more than 15%, and this has been used as the threshold required for 'excellent' performance. The threshold for 'good' performance is 20%, and where this is exceeded there should be a clear and documented justification for why this is higher. Such justifications could include donor requirements to preserve capital or holding capital to attract further investment. The decision to maintain high levels of reinsurance has been taken by the Board of ARC Ltd, due to the uncertainty of funding, whereby the US\$ 100 million is repayable to donors by 2034 or sooner if certain criteria are met (CBA 2022, p20).

In addition, our judgement takes into account the most recent CBA study and UK Government Actuary's Department's review of ARC's reinsurance approach. These both suggest that ARC Ltd adopts a very conservative reinsurance strategy by transferring a large proportion of the insurance premiums received to reinsurance providers, particularly given the high levels of capital that ARC Ltd holds as a result of the US\$ 100 million interest-free loan provided by donors. This approach to reinsurance results in the programme reducing its profit as a result of minimising the risk.

⁵⁶ Figure is based on the budget shared by ARC LTD

⁵⁷ Administrative expenditure includes executive management and administration, Board costs, memberships fees, audit, and specialist fees (such as insurance manager, legal, actuarial, and reinsurance broker).

⁵⁸ CCRIF audited accounts for 2018, 2019, and 2020.

⁵⁹ PCRIC audited accounts for 2020.

Between 2014 and 2020, ARC Ltd paid US\$ 29 million more in reinsurance than reinsurers paid to offset claims.

Both the CBA in 2020 and the UK Government Actuary's Department reviews recommended ARC adopt a more progressive strategy towards reinsurance, which does not use reinsurance to avoid the possibility of any loss but instead exposes ARC to manageable risks and utilises reinsurance to mitigate only the more severe risks (Kramer *et al.*, 2020, p. 61). The most recent draft CBA (OPM, 2022) also concludes that the reinsurance by ARC Ltd may reflect an aversion to risk that is inconsistent with the healthy capital position of the insurer but is rational in the face of uncertainty over the funding and its potential repayment requirements.

ARC Agency running costs

ARC Agency was unable to supply a breakdown of actual spend. As we do not have access to the breakdown of actual costs, the judgement against this sub-criterion will be based on the ARC Agency 2020 budget. We have defined running costs for ARC Agency as general and administrative costs, which includes Director-General Office costs, administration, and indirect project costs. Based on this definition, ARC Agency running costs were budgeted at US\$ 12.13 million in 2020, corresponding to 16% of the total budget. This is in line with other large complex donor-funded programmes. OPM's analysis of the comparative running costs of the large donor-funded programmes it implements indicates these typically have running costs in the range of 12% to 25%. This is also consistent with other similar programmes implemented by other organisations where OPM has conducted costing or VfM analysis.

Without seeing the actual cost breakdown, we do not know whether running costs in fact overshot the budget for this line item. In 2020 ARC Agency reported spending US\$ 9,219,855 against its budget of US\$ 12,134,000, 24% below budget (principally due to a lack of travel because of Covid-19). But we do not have the data to assess how much of the actual spend corresponded to running costs. However, even if the actual spend on running costs spend overshot the budget by up to 20%, as a percentage of actual spend it would still be within the 12–25% range.

The Administrative Service Agreement with WFP potentially limits ARC Agency's ability to minimise staff costs, since ARC Agency pays its staff in line with the bands set by WFP. Compared to FCDO, for example, it appears that these bands mean that WFP pays more for comparable roles.⁶⁰ Furthermore, analysis of ARC Agency's salary costs suggests it is potentially 'top-heavy', with relatively high numbers of high-cost roles. Specifically, in 2021 more than 40% of staff members had a remuneration cost of more than US\$ 150,000 per year. These costs will reflect ARC's organisational structure and recruitment policies (international/local) as well as the WFP remuneration bands.

Judgement and rationale

The overall judgement against this sub-criterion is 'adequate'. This judgement is due to ARC Ltd's high operational costs. Reinsurance levels do not meet the threshold for 'good'

⁶⁰ For example, a Senior Advisor Monitoring and Evaluation at grade P4 costs £768 per day, compared with around £315 to £380 per day for similar FCDO staff in offices in west and southern Africa. These figures are not directly comparable because the former include all remuneration costs, however the difference illustrates the substantially higher costs being paid by ARC Agency.

($\leq 20\%$ of total expected payouts), but ARC Ltd does have a clear justification for why they are higher and there is an approach for managing the level of reinsurance, thus meeting the standards for “good”. ARC Ltd’s operational costs do not meet the standard for ‘good’ ($\leq 10\%$ of total premium value) but it does meet the standard for ‘adequate’ ($\leq 20\%$ of total premium value) as its running costs are 14% of premium value. In general, ARC Ltd’s approach to reinsurance and high operational costs undermines VfM, as it prevents ARC from growing its capital, improving its profit margin, and/or reducing the cost of the premiums countries pay.

While ARC Ltd’s capital costs and ARC Agency’s overhead costs meet the standards for ‘excellent’ and ‘good’, respectively, this is not sufficient to offset the ‘adequate’ judgement for ARC Ltd’s operational costs. Capital costs are effectively negative, due to the implicit subsidy provided by the donors’ interest-free US\$ 100 million loan. Capital costs are therefore significantly below a level that is appropriate for comparable organisations and meet the standard for ‘excellent’ (\leq US\$ 500,000). Our analysis indicates that ARC Agency overhead costs are similar to those of comparable organisations, corresponding to the standard for ‘good’, although it is important to note that this is based on extrapolations from budget data and overall actual spend, rather than a detailed breakdown of actual expenditure (which was not available).

(1.2) Relevant well-priced products

The second economy sub-criterion relates to the extent that ARC offers relevant, well-priced products that are sufficiently compelling for countries to buy into the ARC scheme, taking into account all relevant costs, risks, and potential benefits. This matters for VfM because the full impacts of the donor investment will only be realised (and value created) if sufficient numbers of member states purchase ARC insurance.

Table 15: Economy performance standards (1.2): relevant well-priced products

Standard	Definition	Standard met?
Excellent	Almost all ($>90\%$) client/member countries report ARC drought insurance to be good value, and purchase at least one product	Not met
Good	The majority ($>50\%$) of client/member countries report ARC drought insurance to be good value, and purchase at least one product	Not met
Adequate	The majority ($>50\%$) of client/member countries report ARC insurance to be good value	Met
Poor	Criteria for ‘adequate’ not met	N/A
Overall judgement: Adequate		

Table 16: Economy evidence requirements (1.2): relevant well-priced products

Indicator/ evidence	Definition	Type of indicator; Measurement approach	Source(s)
% member countries reporting good-value products	Under EQ3, a sample of member countries were asked whether they considered ARC drought insurance to be good value.	Quantitative, qualitative # of member countries reporting ARC / # countries interviewed Factors associated with countries' assessments of good value will also be analysed	EQs 3.2.1 and 3.2.2. (based on KIIs) Online survey
% member countries purchasing at least one ARC product	The % of member countries that purchased at least one ARC product during the reference period. This is used as a proxy for whether ARC products are relevant for member countries.	# member countries that purchase at least one ARC product/total member countries	ARC Ltd reports

Detailed evidence considered for judgement against this sub-criterion

In the evaluation, respondents from four sampled countries were asked to score how valuable they consider ARC's drought insurance policy to be for their country's ability to respond to droughts in a timely and effective manner. The scoring was based on a scale of 1 to 4, with 1 being low and 4 high. On average, a score of 3.75 out of 4 was observed. However, respondents heavily caveated these high ratings with qualifications around receipt of payouts and the customisation of ARV to their countries' needs. In particular, respondents noted several factors that affected their decision to purchase drought insurance:

1. **Expectation of payouts.** Lack of previous payouts (when expectations are that there should be) was a factor in not purchasing insurance. The lack of payout was also the only risk noted by countries buying insurance, potentially reflecting a misunderstanding about how the insurance is intended to work
2. **Price of premiums.** Respondents noted judgements having to be made in the allocation of scarce resources, as with the example of Burkina Faso, which noted security and Covid challenges that had diverted resources (and political priorities) away from ARC insurance.
3. **Confidence in the forecast model behind ARV.** A number of respondents identified diminishing confidence in the drought model.

There are currently 36 member states, of which 16 have bought at least one drought policy, with Madagascar the only country that has bought policies for both drought and tropical cyclones. In other words, just 44% of member states have bought at least one drought policy. This is despite the fact that subsidies are now available to support policy purchase for most member states.

Judgement and rationale

The overall judgement against this sub-criterion is 'adequate'. While almost all respondents from the four case study countries reported ARC's drought insurance to be

good value, this was heavily caveated. Furthermore, less than half of member states currently hold a policy, which is the minimum standard for 'good'.

(2) Efficiency

FCDO's definition of *efficiency* is focused on the relationship between inputs and outputs (i.e. 'technical efficiency'):

'How well are we (or our agents) converting inputs into outputs? ("Spending well")'
(DFID, 2020, p.3)

FCDO's definition of efficiency is aligned with the concept of technical efficiency (maximising the delivery of the output for a given level of input/resources). In keeping with good M&E practice, the efficiency level of VfM assessment will focus on what ARC delivers (i.e. within the control of ARC), while higher levels of the VfM framework, including effectiveness and equity, will consider outcomes (within the influence of ARC, but beyond its direct control).

The following VfM success factors have been identified as sub-criteria for the efficiency criterion:

- (2.1) Accurate prediction of relevant drought events.
- (2.2) Reliability and timeliness of ARC payouts.
- (2.3) ARC provides high-quality TA and capacity building support to countries to improve drought preparedness.

(2.1) Accurate prediction of relevant drought events and timeliness of ARC payouts

The first efficiency sub-criterion relates to the accurate prediction of relevant drought events. Accurate risk modelling is important to the ARC value proposition because it means that ARC can accurately estimate the likelihood and impact of droughts, which supports the optimal pricing of insurance premiums and provides a basis for the scale of potential payouts required should a drought occur. Furthermore, accurate and reliable risk modelling and risk management builds clients' and member states' confidence in ARC products and supports countries to detect early warning signs for droughts.

Table 17: Efficiency performance standards (2.1): accurate prediction of relevant drought events

Standard	Definition	Standard met?
Excellent	Very accurate prediction of relevant drought events: <ul style="list-style-type: none"> The drought risk model is technically cutting-edge and is continuously improved. Input data quality is high and the latest types of data are leveraged. A clear strategy for managing basis risk is in place and is implemented effectively, with no serious disagreements about claims between ARC and country members. 	Not met
		Not met
		Not met
Good	Accurate prediction of relevant drought events: <ul style="list-style-type: none"> The drought risk model is technically sound and is continuously improved. Input data quality is high, but there may be opportunities to leverage other data types. A clear strategy for managing basis risk is in place and is implemented effectively, with any disagreements about claims between ARC and country members unlikely to cause reputational damage. 	Not met
		Not met
		Not met
Adequate	Reasonable prediction of relevant drought events: <ul style="list-style-type: none"> The drought risk model is technically sound, but some elements could be strengthened. Input data quality is of reasonable quality. There may be disagreements about claims between ARC and country members, which may cause some reputational damage. 	Met
		Met
		Met
Poor	Criteria for 'adequate' are not met.	N/A
Overall judgement: Adequate		

Table 18: Efficiency evidence requirements (2.1): accurate prediction of relevant drought events

Indicator/evidence	Definition	Measurement approach	Source(s)
Robust risk model	<p>Risk modelling involves the use of ARV, ARC's proprietary software application. Accurate modelling is required to estimate disaster response costs and insurance prices. Weak risk modelling can lead to sub-optimal premiums pricing and payouts for country members.</p> <p>Models to predict drought events will never be perfect; however, it is important that accuracy is periodically reviewed and ARC makes refinements to improve ARV accuracy based on learning or as new technology becomes available.</p>	<p>Qualitative</p> <p>The VfM assessment should assess evidence about the quality of the ARV software and the reliability and accuracy of its modelling. It should also explicitly identify whether the ARV risk model is being continuously reviewed and improved.</p>	<ul style="list-style-type: none"> - Document reviews of ARV reviews/evaluations - KIIs with ARC staff (Country Engagement Manager, risk modelling lead, contingency planning lead), industry experts, and country staff (Government Coordinator, risk modelling lead)
Data quality	<p>The drought risk model uses multiple datasets, including rainfall estimates, potential evapotranspiration, water-holding capacity in the soil, crop type, and population data for estimating response costs for droughts and food insecurity. Poor-quality data makes risk modelling less reliable, which negatively impacts on early drought warnings and insurance pricing and payout processes.</p>	<p>Qualitative</p> <p>The VfM assessment should review evidence about the quality of data used in the model and the extent to which new data types are being incorporated as they become available.</p>	<ul style="list-style-type: none"> - As above
Basis risk	<p>ARC uses an index-based insurance mechanism where payouts are made when certain parameter thresholds are met. For ARC, the index is the number of people whose food security conditions are negatively affected by a drought. While a robust risk model and high-quality data improves the accuracy of drought modelling, basis risk is an inherent type of risk in this type of insurance.</p> <p>Basis risk is defined by ARC as the mismatch between the level of drought impact modelled by ARV and the anticipated actual loss, in terms of the 'reasonable</p>	<p>Qualitative</p> <p>The VfM assessment should assess whether ARC is taking measures to manage basis risk effectively. This might include providing information or training to country members to explain how the insurance is triggered.</p> <p>The assessment should also seek the perspectives of country members to ascertain whether they are confident that ARC will make payments when droughts occur, in</p>	<ul style="list-style-type: none"> - KIIs - Basis risk incident reporting

Indicator/ evidence	Definition	Measurement approach	Source(s)
	<p>expectations of the policyholder based on the impacts observed'.⁶¹</p> <p>Effective management of basis risk is integral to the ARC value proposition and its sustainability. Misunderstandings about when payments are due to country members can potentially hamper drought responses in the short term and reduce confidence in ARC insurance in the medium and long term, leading to fewer policies being purchased.</p>	particular seeking feedback where countries have submitted claims which have been rejected by ARC.	

Detailed evidence considered for judgement against this sub-criterion

The assessment against this sub-criterion considers three aspects: robustness of the risk model; quality of the input data used; and management of basis risk. These are discussed in turn below.

Robust risk model

ARC uses its own platform, ARV, to perform risk modelling and to provide the basis for an early warning system for droughts. The accuracy and reliability of the drought risk model is integral to the overall ARC value proposition. Accurate risk modelling ensures the risk and rewards of insurance premiums are accurately calculated so that ARC can price insurance products optimally. Accurate risk modelling also enhances the reliability and trust in using ARV as an early warning system. Conversely, low accuracy means sub-optimal insurance pricing and it means countries become less able (or less willing) to use ARV as an early warning system, both of which reduce VfM.

User perspectives on ARV risk modelling

Between 2016 and 2020, between 10 and 11 member states used ARV to support early season analysis and responses to affected populations,⁶² with this increasing to 20 in 2021. OPM FE2 EQ1.1.1 finds that most TWGs interviewed use ARV information to monitor the season and provide early warnings, albeit this is generally compiled with other information from other systems and ARV is not used as a formal trigger for action. The 2021 FCDO Annual Review reported that 97% of users were satisfied with ARV, although 74% of users said that ARV was not used for disaster management in addition to ARC (ARC, 2019b). The use of ARV by member states as a source of information for identifying early warnings may indicate a level of trust in the reliability of the ARV platform by users, although ARV has not become countries' main risk modelling tool for DRM.

Respondents in the OPM FE2 survey described low levels of user confidence in the drought risk model. For example, one respondent referred to it as based on a 'satellite that doesn't show what's happening on the ground', while another said that 'the only problem is ARV, but

⁶¹ ARC (2019) 'Basis Risk Principles'.

⁶² FCDO African Risk Capacity Logframe.

it's a key problem which threatens the credibility of the [ARC] institution' (OPM, 2021b).⁶³ This recent shift may partly be due to the 2021/2 basis risk incident in west Africa, where problems with a rainfall dataset meant that the model did not reflect the situation on the ground. It took ARC several months to resolve this situation, finally resulting in a payout to three countries, which has likely had a significant impact on trust in ARV. While risk models designed to predict droughts will never be perfect, the level of concern expressed by clients suggests there are problems with perceptions of its accuracy.

Technical perspectives on drought risk modelling

It should be noted that a significant limitation of this assessment is that a technical assessment of the platform and risk model has not been performed, and the perceptions of users that the model is inaccurate does not necessarily mean that is the case. A detailed review of the model in 2018 reported that 'the overall performance in detecting severe droughts and the magnitude of impact on food security is good compared to existing systems. However, the correlation between the ARV estimates and reference data is still low' (JRC Technical Reports, 2018). That is to say that while the overall performance is reasonable, there continues to be a risk of false negatives or false alarms in regard to predicting droughts, and therefore opportunities to improve the risk modelling.

The drought risk model principally relies on the WRSI; however, there are multiple alternative datasets and indices that can be used for risk modelling. The JRC review of ARV in 2018 concluded that the WRSI was a good indicator for detecting severe drought but was sometimes overly optimistic, and the World Bank review in 2017 also noted issues with variability due to the WRSI index (GFDRR, 2017). A respondent in the OPM FE2 KIIs echoed this, saying that in some countries and contexts, WRSI may not be the most appropriate index. They added that ARC improvements to the ARV risk model focused on refinements to the parameters, rather than making systematic changes to the risk model or using different indices which could lead to greater improvements in accuracy and reliability.

Continuous improvement of the risk model

Data availability and the sophistication of risk modelling platforms have progressed significantly since the inception of ARC and it is important that the ARV platform is able to incorporate the latest technology and developments to maximise efficiency.

The documents reviewed note efforts to improve the functionality and accuracy of the ARV platform risk model. For example, the 2021 FCDO Annual Review and 2021 Annual Donor Partner Report describes a number of efforts to improve the accuracy and reliability of the ARV risk model. These include efforts to add new features to ARV and to improve the accuracy of the existing risk model: for example, through the addition of a new soil dataset to improve performance of the WRSI and providing access to Climate Hazards Group InfraRed Precipitation with Station (CHIRP) data. However, as already highlighted, these tend to be improvements related to the selection and use of datasets and adjustments to the parameters, rather than more substantial changes to the risk model. In a review of learning constraints at ARC, OPM FE2 EQ4.2.3 finds that 'the most concerning example of failed learning is with ARC's risk model'. It notes that multiple reviews had found deficiencies in the

⁶³ EQ3.2.2.

ARV platform, or that better alternative risk model approaches were now available, and that ARC was slow or reluctant to make necessary changes to improve the model.

Data quality

While it is necessary for the drought risk model to be robust, risk modelling will be inaccurate without good-quality data. Data quality can be defined as meeting the quality requirements for the purpose that data need to be used for (in this case accurate and reliable risk modelling) and having the right type, quality, timeliness, and quantity of data.

The drought risk model uses multiple datasets, including rainfall estimates, potential evapotranspiration, water-holding capacity in the soil, crop type, and population data, among others. The documents reviewed note that efforts are made to update the system to be able to use new data types. For example, the 2021 Annual Donor Partner Report describes upgrades to the platform that allow new soil datasets to improve the performance of the WRSI model. This indicates that there are efforts to add new data types through continuous improvement.

ARC country engagement through the ARC project lifecycle includes an ARV customisation stage where countries customise ARV. ARV customisation guidance notes summarise the importance of data quality, with one guidance note saying that the risk models ‘depend on the country’s ability to supply accurate, gender-sensitive data on population, exposure, poverty and other relevant variables’ (ARC, 2021). ARC has a clear Customisation Quality Review process, which includes a quality standards checklist that is completed by the TWG and reviewed by the ARC Technical Support Division and ARC Ltd. This shows the existence of quality assurance processes at the country level, albeit this assessment did not review the quality of that process or the degree of focus on data quality in particular.

However, as noted in the 2021 Annual Donor Report, ‘a major challenge faced during the second half of 2021 is the drop in quality of one rainfall dataset (ARC2) produced by NOAA and largely used for insurance policies in West Africa and in Madagascar’. This indicates there is room for significant improvements in data quality.

The evidence detailed above shows considerations about the types of data used, both in terms of the selection of datasets used by ARV and the data used at country level. There is documentation that describes the importance of data quality (for example, Planned Improvements in Quality Assurance and Control to Africa RiskView and Customization Processes, ARC (2017)); however, the serious problems related to poor data quality in 2021 suggest there is scope for improvement. The assessment did not find any portfolio-level data quality assessments that assess the degree to which ARC is using the optimal types, quantity, and quality of data.

Basis risk

ARC uses an index-based insurance mechanism where payouts are made when certain parameter thresholds are met. For ARC, the index is the number of people whose food security conditions are negatively affected by a drought. Basis risk is an inherent type of risk in this type of insurance. Basis risk is defined by ARC as the mismatch between the level of drought impact modelled by ARV and the actual loss, described as the ‘reasonable expectations of the policyholder based on the impacts observed’. Managing basis risk is

about trying to ensure that countries' expectations of what they should be paid match what is actually paid out by ARC.

In previous years, ARC has had to make non-contractual payments to countries, including US\$ 8.1 million to Malawi in 2017 and US\$ 2.4 million to Mauritania in 2018. ARC has a Basis Risks Principles document which describes the importance of accurate modelling to meet country expectations and now embeds basis risk training into capacity building activities. There were no non-contractual payments made in 2020 or 2021, which may be a reflection of the efforts made by ARC to more effectively manage basis risk (FCDO, 2021).

However, in the second half of 2021, one rainfall dataset (ARC2) produced by NOAA and largely used for insurance policies in West Africa and in Madagascar had a loss in quality leading to discrepancies with ground stations and other satellite-based rainfall estimates, so ARC stopped using this dataset. Three countries (Burkina Faso, Niger, and Mauritania) felt that a payout was due and this situation took several months to resolve.

This is likely to have contributed to the lack of confidence in ARV's risk modelling found by OPM FE2 EQ3.2. Trust in the information provided by ARV scored an average of 2.75 out of 4 and ARV's quantification of risk and support for early warning for drought scored 2.3 out of 5. The accuracy and reliability of ARV is described in more detail above; however, low confidence in the system that triggers payouts and the occurrence of actual basis risk events will erode confidence in ARC.

Judgement and rationale

The overall judgement against this sub-criterion is 'adequate'.

The ARV platform and its risk model has been used by member states to provide early warning information and to trigger payouts, and there are clear examples of improvements to the ARV platform. However, the reviews of ARV in 2017 and 2018 describe a number of areas of improvement, such as systematic changes to the risk model using latest technology and development and the use of alternative data and indices for risk modelling. The OPM FE2 EQ3.2.3 also describes low levels of user confidence and the potential need for more systematic improvements to ARV. In our judgement this corresponds to the criteria for 'adequate' for this element.

While there are examples of cases where new datasets have been introduced during the reporting period, and the country customisation review process involves processes for quality assurance, there were significant issues with the quality of rainfall data in 2021 which require improvement. This corresponds to the criteria for 'adequate' for this element.

Similarly, while there is documentation in place to more effectively manage basis risk, issues with the quality of data in 2021 led to significant discrepancies between the impact as modelled by ARV and the actual impact on the ground in several countries. This again corresponds to the criteria for 'adequate'.

(2.2) Reliability and timeliness of ARC payouts

The second economy sub-criterion relates to the reliability and timeliness of ARC payouts. Note that the focus here is on ARC's payout, i.e. which is under ARC's direct control, as opposed to the reliability and timeliness of the country's drought response, which is covered

under Sub-criterion 3.1. This matters for VfM because value creation relies on timely and effective domestic-led drought response, which requires funding via timely and reliable ARC payouts.

Table 19: Efficiency performance standards (2.2): reliability and timeliness of ARC payouts

	Standard	Definition	Standard met?
	Excellent	Drought insurance payouts were received within the specified timeframe (<30 days) for <u>all</u> member countries.	Not met
	Good	Drought insurance payouts were received within the specified timeframe for at least two-thirds of member countries, and none were received after more than 40 days.	Met
	Adequate	Drought insurance payouts were received within the specified timeframe for the <u>majority</u> of member countries, and none were received after more than 40 days.	Met
	Poor	Criteria for 'adequate' are not met.	N/A
Overall judgement: Good			

Table 20: Efficiency evidence requirements (2.2): reliability and timeliness of ARC payouts

Indicator/evidence	Definition	Measurement approach	Source(s)
Timeliness of payouts	<p>Early payouts, and in particular ensuring funds are available sooner than alternative donor-funded approaches, such as the United Nations Consolidate Appeals Process, is central to the ARC value proposition.</p> <p>The speed with which ARC makes payouts to country members when payments are triggered is a key requisite for ensuring that the intended benefits are realised.</p>	<p>Quantitative</p> <p># days between ARC payout and the payout trigger</p>	<ul style="list-style-type: none"> - FCDO Annual Review - ARC Ltd annual reports

Detailed evidence considered for judgement against this sub-criterion

A central part of the overall ARC value proposition is that finances are provided to fund disaster responses faster than they would be via alternative approaches, such as donor-funded humanitarian responses, which can take time to mobilise (this is described in the ToVC as a 'speed benefit'). ARC is able to ensure that country members receive funds as quickly as possible by minimising the time between a payout being triggered (based on the ARV platform) and the actual payout being made. ARC has a KPI target to make payouts in less than 30 days from when a payout is triggered.

This target was achieved for three out of the four payouts in the reporting period (data for the Côte d'Ivoire payout were not available), meaning 75% of payouts are considered to have met the target.

Table 21: Efficiency evidence requirements (2.2): timeliness of ARC payouts

Country	Claim processing time	<30 day target met
Côte d'Ivoire 2019	<25 (FCDO, 2020)	Yes
Senegal	<25 days (FCDO, 2020)	Yes
Madagascar	38 days ⁶⁴	No
Zimbabwe	30 days ⁶⁵	Yes
Côte d'Ivoire 2020	Data unavailable	

Judgement and rationale

The overall judgement against this sub-criterion is ‘good’. In the reporting period, payouts were received within the 30-day target for 75% of the countries (three out of four) that received a payout.

(2.3) ARC provides high-quality TA and capacity building support to countries to improve drought preparedness

The third efficiency sub-criterion relates to ARC's success in providing high-quality TA and capacity building support to member countries to improve drought preparedness. This is intended to increase domestic government capacity on drought preparedness, including enabling both higher-quality contingency planning and greater capacity to respond. This matters for VfM because value creation relies on timely and effective domestic-led drought response, which requires a sufficient and sustained increase in focus on drought preparedness, including both better contingency planning and enhanced capacity to respond.

In making this assessment, it is important to take into account the likely sustainability of the results of the TA and capacity building provided, while acknowledging that this is negatively impacted by high levels of staff turnover, at both technocratic and political levels, which is obviously beyond ARC's control and sphere of influence. It will therefore be important to assess to what extent this is being taken into account in the design and delivery of ARC Agency's TA and capacity building activities, with sustained domestic results likely to require sustained capacity building efforts, rather than one-off interventions, to ensure that lasting organisational capacity (rather than individual capacity) is built and maintained.

⁶⁴ Madagascar process evaluation.

⁶⁵ Zimbabwe process evaluation.

Table 22: Efficiency performance standards (2.3): ARC provides high-quality TA and capacity building support to countries⁶⁶ to improve drought preparedness

Standard	Definition	Standard met?
Excellent	Countries have drought country plans and very high-quality TA and capacity building support is provided: <ul style="list-style-type: none"> The total number of countries with drought contingency plans meets or exceeds the KPI target. Capacity building efforts are coherent and of very high quality. 	Met Not met
Good	Countries have drought country plans and high-quality TA and capacity building support is provided: <ul style="list-style-type: none"> The total number of countries with drought contingency plans meets or exceeds the KPI target. Capacity building efforts are coherent and of high quality. 	Met Met
Adequate	Countries have drought country plans: <ul style="list-style-type: none"> The total number of countries with drought contingency plans meets or exceeds the KPI target. 	Met
Poor	Criteria for 'adequate' are not met.	N/A
Overall judgment: Good		

Table 23: Efficiency evidence requirements (2.3): ARC provides high-quality TA and capacity building support to countries to improve drought preparedness

Indicator/evidence	Definition	Measurement approach	Source(s)
Quantity of contingency plans	The total number of countries that ARC has supported to develop drought contingency plans. Contingency plans can support countries to better respond to drought events.	Quantitative Number of countries that ARC has supported to develop contingency plans compared against the annual KPI target.	OPM FE2 findings, FCDO annual review, Expert assessment by DRM specialist
Quality of capacity building	ARC Agency provides TA and capacity building support to countries to improve contingency planning. Provision of higher-quality contingency planning support from ARC can help improve country member drought preparedness, which should increase the likelihood that countries are able to respond to droughts more rapidly after receiving a payout.	Qualitative Feedback and evaluation findings provide evidence relating to the quality of capacity building support provided by ARC.	OPM FE2 findings, Expert assessment by DRM specialist

⁶⁶ 'Participating member countries' refers to the subset of ARC member states which have signed an MoU with ARC.

Detailed evidence considered for judgement against this sub-criterion

The assessment against this sub-criterion focuses on whether contingency plans are in place, both for countries which have purchased insurance products from ARC Ltd, as well as those countries which have signed an MoU with ARC but have not purchased insurance. The sub-criteria also assesses the quality of capacity building activities delivered by ARC Agency.

Quantity of contingency plans

ARC is the only regional risk pool that links payouts to pre-approved contingency plans. Ensuring effective contingency plans are in place is a core part of the ARC ToVC, as the pre-agreed plans increase the likelihood that countries are able to rapidly implement drought responses after receiving payouts. Linking the plans to payouts provides an incentive for countries to invest in planning ahead of droughts.

ARC Agency provides capacity building support to member states that have signed an MoU with ARC, and one key part of this is to support them to develop a high-quality contingency plan. OPM FE2 EQ1.1.2 finds that there has been an increase in the number of contingency plans for drought across Africa, and that this is directly attributable to ARC. And that while most member states had some national disaster contingency planning pre-ARC, this was often multi-hazard and therefore fairly general, or it may not have included drought at all. In 2021, ARC supported 19 countries to develop drought contingency plans, meeting its annual KPI.

Quality of capacity building

ARC members receive capacity building support to understand their risks and to support DRM. The quality of the capacity building support provided is important for VfM from a country perspective because countries need to understand the risks and benefits of the insurance scheme in order to be able to decide if ARC provides optimal VfM to them, and because strengthening capacity to plan and respond to droughts will ensure that countries are better able to respond to droughts.

ARC provides an independent review of all contingency plans, through the TRC, to ensure their quality. This process involves several independent experts providing two reviews, with the countries amending them until they meet the agreed standard. While this is a positive process, another external review of contingency plans (undertaken by the Centre for Disaster Protection) identified a range of other areas for improvement and the FE2 team finds that there is no strong evidence that OPs have increased in quality over several years of ARC engagement.

OPM FE2 EQ1.1 found that governments value ARC's technical support and capacity building work in its core areas, where there is a well-established training programme. However, ARC does not have a strategy or framework for conceptualising how countries' capacity is expected to be strengthened. As there is no clear measurement or monitoring approach, it is difficult to provide an overall assessment of the quality of ARC capacity building for country members.

OPM FE2 EQ1.3 also highlights that while capacity is being built, 'it is not moving towards institutional or transformational capacity building'. That is, while capacity building is working effectively to support specific activities, such as the development of contingency plans and

OPs, there are concerns that the capacity building is not sufficient to lead to long-term capacity. The FCDO Annual Review for 2021 echoes this and says that it is not clear at 'what point governments become self-sustaining in terms of their capacity and ability to produce FIPs without technical assistance and oversight from ARC'.

Judgement and rationale

The overall judgement against this sub-criterion is 'good'. While the existence of contingency plans and positive country member feedback are important, the ToVC also depends on the capacity building being of sufficient quality to enable country members to be able to independently manage drought risks in the long term. While the evaluation identified good capacity building practice, there are concerns about whether ARC capacity building is sufficiently focused on building long-term capacity, rather than delivering short-term objectives. The lack of a capacity building framework and data disaggregated by country member also makes it difficult to form a judgement on ARC's overall performance in relation to capacity building quality.

(3) Effectiveness

In line with FCDO's approach to VfM, *effectiveness* relates to the achievement of outcomes:

'How well are the outputs produced by an intervention having the intended effect? ("Spending wisely")' (DFID, 2020, p.2)

This level of VfM assessment involves changes in behaviour or actions on the part of external stakeholders after programme delivery. Thus, it is within ARC's influence, but not within its entire control.

The following sub-criteria will be used for the effectiveness criterion:

- (3.1) ARC support to contingency planning and capacity building contributes to timely and appropriate drought response.
- (3.2) Timely ARC-funded drought response reduces negative household-level coping strategies.
- (3.3) ARC successfully facilitates increased sovereignty and sustainability in country-level risk planning.

(3.1) ARC support to enhanced contingency planning and capacity building contributes to timely and appropriate drought response

The first effectiveness sub-criterion relates to the extent to which ARC support to enhanced contingency planning and capacity building successfully contributes to timely and appropriate drought response. This matters for VfM because value creation relies on timely and effective domestic-led drought response, which is not guaranteed by ARC payouts alone.

In making an assessment against this sub-criterion, it is important to distinguish between the effectiveness of ARC's support (which is under its control, i.e. capacity building, TA support, robust challenge, etc), versus effective action by member country governments. This sub-

criterion relates to the effectiveness of both of these elements combined. A key source of evidence are the FIPs which countries develop when a payout is due. By assessing whether the FIPs have been effectively implemented in full and in line with the specified timeframe, and that they are themselves consistent with a high-quality OP, we can assess the extent to which an ARC-funded drought response has been appropriate and timely.

Table 24: Effectiveness performance standards (3.1): ARC support to enhance contingency planning and capacity building contributes to timely and appropriate drought response

Standard	Definition	Standard met?
Excellent	ARC support has contributed to timely and appropriate drought response in <u>all</u> countries receiving a payout:	Not met
	<ul style="list-style-type: none"> Drought response starts to reach beneficiaries within four months in all countries where the payout is triggered. ARC support has contributed to an appropriate drought response in <u>all</u> countries where the payout is triggered. 	Met
Good	ARC support has contributed to timely and appropriate drought response in a strong majority of countries receiving a payout:	Not met
	<ul style="list-style-type: none"> Drought response starts to reach beneficiaries within four months in a strong majority (>two-thirds) of countries where the payout is triggered. ARC support has contributed to an appropriate drought response in a strong majority (>two-thirds) of countries where the payout is triggered. 	Met
Adequate	ARC support has contributed to timely and/or appropriate drought response in the <u>majority</u> of countries receiving a payout:	Not met
	<ul style="list-style-type: none"> Drought response starts to reach beneficiaries within two months in a <u>majority</u> (>50%) of countries where the payout is triggered. ARC support has contributed to an appropriate drought response in a <u>majority</u> (>50%) of countries where the payout is triggered. 	Met
Poor	Criteria for 'adequate' are not met.	Met
Overall judgement: Poor		

Table 25: Effectiveness evidence requirements (3.1): ARC support to enhance contingency planning and capacity building contributes to timely and appropriate drought response

Indicator/evidence	Definition	Type of indicator; measurement approach	Source(s)
Timeliness of drought response	<p>This relates to the length of time between ARC making the payout and support starting to reach beneficiaries.</p> <p>This should be less than four months, to represent an improvement compared to a standard reactive drought response.</p>	<p>Quantitative:</p> <p># of countries with drought response <four months / # countries receiving a payout</p>	<ul style="list-style-type: none"> - Payout evaluations - EQ1.1.3 (effectiveness and timeliness of drought response)
Appropriateness of drought response	<p>The degree to which drought response plans are coherent and respond to priority needs. A key indicator of this is the degree to which FIPs are consistent with OPs, where the OPs themselves are assessed to be sound.</p>	<p>Quantitative:</p> <p># of countries where FIPs consistent with sound operational plans / # countries receiving a payout</p> <p>Qualitative:</p> <p>This will also be complemented by the assessment of factors impacting the quality of drought response, and ARC's contribution, covered under EQ1.</p>	<ul style="list-style-type: none"> - Contingency plans - FCDO Annual Reviews - OPs vs FIPs - ARC Agency donor reports - EQ1.1.3 (effectiveness and timeliness of drought response)

Detailed evidence considered for judgement against this sub-criterion

There are four types of documents that have been reviewed for this sub-criterion:

1. the country process or payout evaluations;
2. country contingency plans (i.e. the OPs and FIPs);
3. FCDO Annual Reviews; and
4. ARC Agency reports to donors.

Information from the documents reviewed have been sense-checked against the results of EQ1.1.3 (effectiveness and timeliness of drought response) to facilitate a nuanced judgement of this sub-criterion's performance.

Contingency planning process

ARC was founded on the idea that the delivery of early disaster funding (in the form of an insurance payout), linked to **robust contingency plans**, will result in greater livelihood and assets savings for beneficiaries. ARC requires countries to identify the right risks to transfer, and to have robust contingency plans, before they can join ARC.

The contingency planning process is composed of two parts;

i) The OPs, which identify specific activities to be undertaken in the event of a payout. OPs provide detailed information about the following: the country; the natural disaster risk profile; RTP; planned interventions, including determining whether they meet ARC eligibility criteria; draft implementation plans for each possible activity; implementing partners who have been identified; details on the flow of funds; programme targeting; procurement needs; and M&E. A country must have an OP to qualify for a Certificate of Good Standing.

ii) The FIPs, which are prepared when a payout is triggered. FIPs detail how a specific ARC payout will be deployed after a specific natural disaster event. They provide details on specific interventions and activities that will be carried out in the event of a payout. Compared to the OPs, the FIPs offer details on the specific geographical locations that will receive assistance via the proposed interventions, the estimated number of beneficiaries in each, and the estimated cost of covering the target population with these interventions for the entire ARC implementation period. They also define stakeholders' roles and responsibilities and provide additional information on the flow of funds (including budget and timelines), targeting, and procurement processes (where applicable), and re-confirm the M&E strategy and the possible risks associated with the intervention's implementation. FIPs must be submitted one month before the payout is due.

Following the confirmation of the payout, the government in question, in collaboration with ARC, works on the development of the FIP. FIP development is a joint process and is very collaborative, involving relevant national and international stakeholders, with inputs from the ARC technical and sub-technical committees. FIPs are expected to follow the OP to facilitate faster response plans and disbursement of funds. Given that much of the information is defined in the OPs, completing the FIP details is a relatively rapid process. Table 26 below shows that, on average, FIPs are prepared within one month from when a payout is triggered and, in most cases, submitted in a timely fashion before the payout, because countries are familiar with the type of information required.

Timely drought response

Though the early stages of the response, such as the preparation of the FIP, have often proceeded as anticipated, the timely operationalisation of the FIP (following ARC's payout) to deliver a fast response to households has generally not occurred. Specifically, as shown in Table 26 below, it took more than 120 days for the response to reach the beneficiaries in all of the last four payouts.

Table 26: ARC payment turnaround time

Country	Payout triggered	FIP completed and approved	Date ARC's payout was disbursed	First contact with the beneficiary	Payment turnaround time (the time it takes for payout to reach the beneficiaries from when ARC disburses the funds to govt) Benchmark: 120 days
Côte d'Ivoire		31 October 2019	Sept 2019	October ⁶⁷ 2020	>120 days, almost a year after receipt of funds
Senegal		10 Dec 2019	13 Dec 2019	Sep 2020 ⁶⁸	>120 days
Madagascar	8 June 2020	June 2020	9 July 2020	March 2021 ⁶⁹	>120 days
Zimbabwe	20 June 2020	25 June 2020 ⁷⁰	9 July 2020	April 2021 ⁷¹	>120 days

Source: Country process evaluations

Table 27 below shows a comparative summary of variations from anticipated timescales in executing the FIPs, for countries where a payout was made. FIPs include SOP guidelines, which should be followed during their deployment. At the FIP design stage, countries must update the list of SOPs provided in the OPs and focus on the most crucial SOPs relevant to the natural disaster scenario at hand. The SOPs provide details of implementation activities and operational procedures, and the responsible body or officer, the established completion date for the action, and the maximum turnaround (in days). Process/payout evaluations found that, across payout countries, many of the process steps outlined in the FIP SOPs occurred as expected during implementation. However, very few steps happened within the overall anticipated timescales.

⁶⁷ 'Evaluation of the 2020 ARC payment process in Cote d'Ivoire', Institute for Research and Application of Development Methods (2021), pp. 22,36.

⁶⁸ Period when the Government of Senegal implemented the national Covid-19 response plan distributions as ARC funds had been merged with the plan ('Final report: ARC Senegal payout process evaluation', Kimetrica (2020), p.19).

⁶⁹ 'Evaluation of the 2020 payout process in Madagascar', The Konterra Group and Jimat (2021), p. 11.

⁷⁰ The FIP remained unrevised despite significant changes to the programme ('Evaluation of the 2020 payout process in Zimbabwe', The Konterra Group and Jimat (2021), p.18)

⁷¹ 'Evaluation of the 2020 payout process in Zimbabwe', The Konterra Group and Jimat (2021), p. 10.

Table 27: Compliance with SOP timescales across payout countries

SOP heading	SOP subheading	Côte d'Ivoire	Senegal	Madagascar	Zimbabwe
Monitor food security levels					
Update contact databases					
FIP development and submission	Decision on most likely regions/districts to receive ARC funding		x	x	
	Decision on most likely interventions to fund given the scenario		x	x	
	Estimate the number of vulnerable people targeted		x	x	
	Draft FIP, including a detailed budget		x	x	
	Obtain government approval for the FIP		x	x	
	Modification of FIP if necessary		x	x	x
Coordinate needs assessment/obtain needs assessment results					
Notification of implementing ministry of potential funds transfers					
Convene coordination meetings		x			x
Funds transfer to implementing ministry					
Operational processes coordination	Inform other implementing partners of the possibility of payout				
	Inform county and sub-county structures of the possibility of payout	x	x	x	
	Inform existing programme managers of the possibility of scale-up	x	x	x	
	Transfer of funds to implementing partners			x	x
Targeting and registration	Identify additional beneficiaries and update beneficiaries list				
	Assess completeness of the list of beneficiaries in each identified district/country				
	Expand field staff to address registration/beneficiaries in each identified district/country	x			x
Procurement	Identify actors responsible for the procurement of goods and services	x			

	Verify that procurement sources and procedures are functional	x			
	Initiate the procurement process	x			x
Verify functionality of existing systems	Confirm that food transfer/distribution systems are in place and functional, and can handle additional caseload	x			
Communication, M&E	Develop clear communication channels among implementing partners and with government	x			
	Identify additional M&E personnel and training needs, if required				x
	Ensure implementing partners are familiar with ARC M&E requirements				
	Ensure implementing partners submit monthly progress reports			x	
	Submit monthly (regular) monitoring reports to ARC			x	
	Submit an interim report	x	x		x
	Submit final implementation report				x

Source: SOP audits, extracted from country process/payout evaluations

Key:

	No variation in timescale, no issues or very minor issues
	Minor variation in timescale, reasons for variations acceptable
	Significant variation in timescale, with far-reaching implications for the success of the programme
x	SOP not applicable

In some cases it appears that the delays were due to elements of the FIPs being partially or even wholly changed, and therefore key activities slipped from their intended timelines. For example, in Madagascar, the activities that were implemented differed considerably from those set out in the original FIP, due to the engagement of high-level government officials in interventions, leading to extensive discussions and reworking of plans, including changes in activities. Also, in Zimbabwe, target areas were changed, due to the emergence of new information and data informing targeting, thus leading to changes in target areas.

Even in cases where the original FIPs remained unchanged, issues that are outside of ARC's control negatively impact the rapid response intended for ARC's payouts. For example, although ARC funds arrived on time to the Government of Senegal, it took an extended time to create a special bank account to manage the ARC funds. This initial delay caused cascaded delays for the rest of the fund flows and implementation of activities. The

delayed start of activities due to the late receipt of funds by implementing partners was later compounded by the onset of Covid-19, causing further delays or cancellation of intervention activities. In Côte d'Ivoire, the transfer process was also significantly impacted by the Covid-19 pandemic, which caused delays in most stages of the cash transfer process. According to the FIP, the targeting phase was initially scheduled for between January and February 2020. However, the registration of beneficiaries was significantly delayed due to Covid-19, extending the targeting phase to June 2020. Further, it took three additional months to transfer cash to the beneficiaries due to the limited mobile network coverage of Orange Money (the mobile money partner) in the selected villages. Transfers were thus made on 1 October 2020, more than six months after the planned date.

It is clear that these four payouts were impacted by the Covid-19 pandemic, which presented a particularly difficult environment for implementation. However, these four cases are consistent with previous payouts, the vast majority of which were implemented after 120 days. This contrasts to ARC Replica payouts, which have been deployed in a more timely fashion.

Appropriate drought response

As set out in the VfM framework, the appropriateness of the drought response has been defined as the degree to which drought response plans are coherent and respond to priority needs. We operationalise this by assessing the degree to which FIPs are consistent with OPs, where the OPs themselves are assessed to be sound.

Countries receive an ARC policy subject to having an approved OP, which is independently reviewed by the TRC. Following robust review criteria, OPs are required to score 450 points and above (out of 500) to be considered sound and of appropriate quality. Table 28 shows that OPs from Côte d'Ivoire, Madagascar, and Zimbabwe scored 450 or above, following multiple reviews by the TRC, and thus were considered sound. Senegal's OP was not available for analysis. The TRC also assesses the consistency between OPs and FIPs.

Table 28: OP final scores

	Côte d'Ivoire (2018 OP)	Madagascar (2018–20 OP)	Zimbabwe (2019 OP)
OP final scores	450	450	463

Source: Analysis of TRC reports

In this assessment, the consistency of FIPs with OPs has been analysed based on a comparison of the intervention details, which is the most crucial section of both the generic OPs and the FIPs. Overall, there is consistency between the OPs and the FIPs for Côte d'Ivoire, Madagascar, and Zimbabwe. Table 29 shows that interventions and activities identified during the FIP, and their responsible implementing ministry and or partners, are consistent with those in the OP for all three countries.

Table 29: OPs vs FIPs^{72,73}

Country	Contingency plans		Was the intervention initially proposed in the OP?
	OP	FIP	
Côte d'Ivoire	December 2018 OP 1. Food assistance: food distribution/Cash transfer. 2. Distribution of farm inputs and seeds: seed distribution, farm inputs distribution.	October 2019 FIP 1. Food assistance: cash transfer.	Yes
	Implementing partners: Ministry of solidarity, Ministry of Agriculture, Ministry of interior.	Implementing partners: Ministry of Solidarity, Ministry of Agriculture, Ministry of the Interior, Ministry of Finance (overall supervision), Prime Minister's Office (coordination assistance)	
	Targeting mechanism: Target villages based on vulnerability criteria: agricultural situation (production and rainfall).	Targeting mechanism: Target villages based on vulnerability criteria: agricultural situation (production and rainfall), with a focus on households suffering a rainfall deficit shock	
Senegal		December 2019 FIP 1. Food assistance: cash or food. 2. Nutrition activities at the community level: active screening of acute malnutrition; management of moderate acute malnutrition (MAM) cases; referral of severe acute malnutrition (SAM) cases to health facilities. 3. Response to food security for animals.	Not assessed

⁷² Sources: 2018 OP of the Republic of Côte d'Ivoire; 2019 FIP of the Republic of Côte d'Ivoire; Senegal OP not available; 2019 FIP of the Government of Senegal; 2018–20 OP for Madagascar; 2020 FIP of the Government of Madagascar; 2019 OP for Zimbabwe for drought emergency response; Zimbabwe June 2020 FIP – update.

⁷³ All acronyms in this table were taken from either OPs or FIPs, some of which were not always spelt out.

Country	Contingency plans		Was the intervention initially proposed in the OP?
	OP	FIP	
		Implementing partners: Director of Civil Protection; Executive Director of the National Food Security Council; Food Security Commission; General Delegation for Social Protection and National Solidarity; Livestock Directorate; Unit to Combat Malnutrition	
		<p>Targeting mechanism: food assistance.</p> <ul style="list-style-type: none"> - Shock-affected departments – based on results of the situation/cadre harmonisé. - Districts, villages, and neighbourhoods – based on areas at risk survey at the level of technical and community services. - Beneficiary households; based on the assessment of the state of food security, nutrition, vulnerability, livelihoods etc. <p>Targeting mechanism: nutrition component based on National Statistics and Demographic Agency population data.</p>	
Madagascar	<p>2018–20 OP</p> <ol style="list-style-type: none"> 1. Food assistance: cash transfer – need-based (non-conditional); cash transfer (or monetary) – for work; food distribution – need-based (non-conditional); food distribution (for work). 2. Nutritional support for children and pregnant and breastfeeding women: supplementary feeding; nutrition supplement; food distribution – need-based (non-conditional)/cash transfer (need-based non-conditional). 3. Support for the revival of agriculture: seeds distribution or agricultural revival; food distribution – need-based (non-conditional). 4. Water distribution/WASH kits. 	<p>May 2020 FIP</p> <ol style="list-style-type: none"> 1. Food assistance: two activities, i.e. unconditional cash transfer for two months and cash for work for one month. 2. Nutritional and health support for children six to 59 months suffering from MAM/SAM and pregnant/breastfeeding women. 3. Distribution of water to families with malnourished children. 	<p>Yes</p> <p>Yes</p> <p>Yes</p>

Country	Contingency plans		Was the intervention initially proposed in the OP?
	OP	FIP	
	<p>Implementing partners – food assistance: National Risk and Disaster Management Office (BNGRC); Ministry of the Population, Social Protection and Promotion of Women (MPSPAW).</p> <p>Implementing partners – nutrition: National Nutrition Office (Coordination), UPNNC, MSANP, MPPSPF, local authorities (CTD/STD), MCRI, ORN, DRSP, SDSP, CPGU, BNGRC.</p> <p>Implementing partners – support for the revival of agriculture: ONN, MPSPAW; Agriculture and Livestock Regional Directorate; National Risk and Disaster Management Committee (CNGRC), local NGOs.</p> <p>Implementing partners – water distribution: BNGRC, ONN, MPSPAW, regional department of the Ministry of Water, Sanitation and Hygiene, CNGRC, local NGOs.</p>	<p>Implementing partners – food assistance: Emergency Prevention and Management Support (CGPU), BNGRC, MPSPAW, Intervention Fund for Development (FID), WFP.</p> <p>Implementing partners – nutrition: CGPU, ONN, U-PNNC, MinPH/Snut/Nutrition, WFP, local authorities (CTD/STD), MCRI, ORN, DRSP, SDSP, BNGRC, MPSPAW</p> <p>Implementing partners – water distribution: CGPU, BNGRC, regional department of the Ministry of Water, Sanitation and Hygiene, AES (water supply in the South Region)</p>	

Country	Contingency plans		Was the intervention initially proposed in the OP?
	OP	FIP	
	<p>Targeting mechanism – food assistance: geographic targeting by Risk and Disaster Management Committee and vulnerable households according to criteria determining their vulnerability to food insecurity.</p> <p>Targeting mechanism – nutrition component: geographic targeting based on a rapid survey and active screening programme</p> <p>Targeting – revival of agriculture: vulnerable families in the coastal area having plots to grow off-season crops.</p> <p>Targeting – water distribution: geographic targeting by the committee and vulnerable households according to criteria determining their vulnerability to food insecurity.</p>	<p>Adopt lists of targeting done by WFP and FID.</p> <p>Geographic targeting – worst affected municipalities selected based on the prevalence of global acute malnutrition. No specific targeting for the identification of beneficiaries.</p> <p>Adopt targeting by AES.</p>	
Zimbabwe	<p>October 2019 OP</p> <p>1. Food Deficit Mitigation Strategy (FDMS) through: A – Food distribution and complementary cash: need-based. B – Food distribution and complementary cash: for work. 2. Harmonised Social Cash Transfer (HSCT) through A – cash transfer: need-based.</p>	<p>June/July 2020</p> <p>Unconditional cash transfers to the most vulnerable households affected by drought.</p>	Yes
	<p>Implementing partners: FDMS – Ministry of Public Service and Social Welfare. (MPSLSW)</p> <p>Implementing partners: HSCT – Department of Social Welfare, MPSLSW, UNICEF, WFP.</p>	MPSLSW, MET department, Ministry of Local Government, WFP.	
	<p>Targeting – FDMS: geographical targeting based on vulnerability assessments (crop and livestock assessments). HSCT – based on ongoing cash transfer programmes.</p>	Targeting unchanged.	

While our analysis focused on a comparison of FIPs with OPs, it is important to note that in two cases elements of the FIPs were partially – or even wholly – changed during implementation. In all such cases, these changes to FIPs were not formally documented, even though this is supposed to be required under the contingency planning standards and guidelines laying out the process for making changes to the FIPs. However, ARC was aware of the changes and agreed to them. According to the process evaluations, the absence of revised FIPs to show the revised plan (i.e. activities, targeted numbers, geographic locations, etc) reduced the effectiveness of contingency planning. However, our judgement is that even where actual plans deviated from the FIPs, they were still broadly in line with the OPs.

As described above, the FIPs include SOP guidelines, which provide details of implementation activities and operational procedures, with details of the responsible body or officer, the established completion date for the action, and the maximum turnaround (in days). Overall, countries complied with SOPs relating to the following: ongoing monitoring of food security conditions; maintaining and updating contact databases of critical programme focal points; coordination of needs assessments and meetings; and notification of implementing ministries of potential fund transfers. The significant variations from intended operational procedures generally related to funding delays, targeting and identifying beneficiaries, communication, and M&E.

Cote d'Ivoire: Due to limited information on community targeting and beneficiary list adjustment, significant variations were observed in the targeting process. Minor variations in communication and M&E plans were related to failure to submit monthly reports and a comprehensive final implementation report.

Senegal: Significant delays in transferring funds within government to implementation agencies caused major variations from intended procedures. Though ARC funds were received on 13 December 2019, the account creation was still pending in mid-January 2020, delaying funding for implementing agencies. Because funding to implementing agencies was delayed, targeting could not occur as planned. Targeting had not happened by March 2020, when the first Covid-19 case was confirmed in Senegal. By the time funds were released, the government Covid-19 response plan had merged ARC funds. Thus the participatory processes laid out in the FIP were not followed. As a result of delays in funding to government implementing departments, procurement and verification of procurement systems could not occur on time. Other minor variations were observed in communication and M&E, due to the lack of a clear communication strategy between ARC and the Government of Senegal and insufficient quarterly reporting as agreed between ARC and the Government of Senegal.

Madagascar: Funds were transferred to the implementing agency in a timely fashion. However, due to changes in activities and intended target districts during the planning of the operations, targeting and registration did not happen as per the FIP, and there was no clarity on target numbers and how households were selected in the final implementation. Overall, the M&E activities of the Madagascar operation were considered poor. There was no communication strategy as decisions were mostly centralised, particularly around needs assessments, procurement contracting, and general operation direction. Also, submitted reports, both the interim and final implementation reports, were of poor quality, with insufficient and inconsistent information about the implemented activities.

Zimbabwe: In Zimbabwe, monitoring food security levels, updating contact databases, FIP development and submissions and needs assessment coordination activities went as planned and within their expected timelines. However, the transfer of funds from the recipient ministry to government implementing departments and agencies took four months instead of the five days stated in the FIP SOP, from July 2020 to November 2020. Additionally, ECONET, the mobile money operator, received funds approximately two additional months later, resulting in cash distributions being made to beneficiaries between six and 12 months after they were intended. Targeting and registration took too much time: starting in late 2020 and continuing until July 2021. M&E reporting was also considered insufficient, with significant inconsistencies and omissions.

Judgement and rationale

The overall judgement against this sub-criterion is ‘poor’. While ARC does not directly implement responses in country, contingency planning shapes the response and is intended to ensure rapid support to the household level. Our analysis indicates that ARC’s support has had a positive influence on the design and implementation of appropriate drought response. In the three payout countries the FIP was found to be consistent with the OP, which itself was found to be sound and had been approved by the TRC. This therefore meets the standard for ‘excellent’. However, this is not sufficient to outweigh the fact that none of the drought responses reached beneficiaries within a sufficient timely manner, i.e. within the four-month target, which is a minimum requirement for ‘adequate’.

(3.2) ARC-funded drought response support reduces negative household-level coping strategies

The second effectiveness sub-criterion relates to the extent to which ARC-funded drought response support reduces negative household-level coping strategies. This matters for VfM because effective and timely drought support is intended to increase household consumption smoothing and to reduce negative coping strategies, thereby reducing a range of harmful impacts on health, nutrition, livelihoods, education, etc.

In theory, another key dimension of the value created is that if households are repeatedly (and reliably) protected from loss of assets and livelihoods through reliable drought response, they will change their behaviour and start to invest in more risky, higher-return production activities and assets. In practice, this impact is not expected because drought response is still not sufficiently established and reliable to enable households to behave as if they are insured against drought risks.

Table 30: Effectiveness performance standards (3.2): ARC-funded drought response support reduces negative household-level coping strategies

Standard	Definition	Standard met?
Excellent	ARC-funded drought responses are shown to have successfully reduced negative household-level coping strategies in a strong majority of households (i.e. over two-thirds), in most cases (>50%) where a payout was triggered.	Not met
Good	ARC-funded drought responses are shown to have successfully reduced negative household-level coping strategies in the majority of households (i.e. >50%) in most cases (>50%) where a payout was triggered.	Not met
Adequate	ARC-funded drought responses are shown to have successfully reduced negative household-level coping strategies for at least some households in most cases (>50%) where a payout was triggered.	Met
Poor	Criteria for 'adequate' are not met.	N/A
Overall judgement: Adequate		

Table 31: Effectiveness evidence requirements (3.2): ARC-funded drought response support reduces negative household-level coping strategies

Indicator/evidence	Definition	Type of indicator; measurement approach	Source(s)
% of countries where ARC-funded drought support reduced negative household-level coping strategies	<p>In countries where a payout has been triggered, evaluations have been implemented which involve surveys of a sample of households supported by the drought support. The survey data include the % of households which were helped to avoid a range of negative coping strategies by the drought response interventions.</p> <p>We use the information to assess the proportion of households which were helped to avoid negative coping strategies (more than two-thirds, between a half and two-thirds, or less than half) in each payout. Each standard is met if the relevant proportion is met in the majority of payouts.</p>	<p>Quantitative:</p> <p>% of countries with <u>excellent</u> coping strategy impact = # countries with >two-thirds households reporting reduced coping strategies / # countries with a payout.</p> <p>% of countries with <u>good</u> coping strategy impact = # countries with >50% households reporting reduced coping strategies / # countries with a payout.</p> <p>% of countries with <u>adequate</u> coping strategy impact = # countries with >50% households reporting reduced coping strategies / # countries with a payout.</p>	<ul style="list-style-type: none"> - Process/payout evaluations - OPM Pilot Impact Country Study: Senegal

Detailed evidence considered for judgement against this sub-criterion

Data against this sub-criterion come from household surveys conducted as part of the payout evaluations, along with supplementary information from a Pilot Impact Country Study

conducted by OPM in Senegal. **Four payouts are included in the analysis**, as shown in Table 32.⁷⁴

Table 32: Payouts included in the analysis

Country	Payout date	ARC payout amount	Interventions	Time from payout to start of implementation against ARC KPI ²
Côte d'Ivoire	September 2019	US\$ 738,540	Unconditional cash transfer, US\$ 90	>120 days
Senegal	December 2019	US\$ 23.1 million (US\$ 12.5 million to government, \$10.6 million to Start Network)	<u>Government</u> : 1 – rice; 2 – subsidised livestock feed <u>Start Network</u> : 1 – flour and some other foods, ¹ 2 – unconditional cash transfer, US\$ 9 per capita up to US\$ 72 per household	>120 days
Madagascar	July 2020	US\$ 2.094 million	1 – food assistance to households (rice, beans, oil); 2 – nutrition support in clinics; 3 – water, sanitation and hygiene (WASH) (potable water and hygiene kits)	>120 days
Zimbabwe	July 2020	US\$ 1.465 million	Unconditional cash transfer, two payments of US\$ 15 each	>120 days

Notes: 1 – Flour distributions were replaced with cash once Covid-19 started. The payout evaluation states that some millet, rice, corn, sorghum, cowpeas, and peanuts were distributed with the cash; 2 – ARC KPI is 120 days.

Sources: Payout evaluations – Côte d'Ivoire (April 2021), Senegal (December 2021), Madagascar (December 2021), Zimbabwe (September 2021)

Three of the four surveys (Senegal, Madagascar, and Zimbabwe) asked households if the ARC assistance had helped them to avoid negative coping strategies (see Table 33). Note that this is self-reported data and therefore subjective. Also, there were no control groups to allow for comparison of use of coping strategies among populations which did not receive assistance. Not all of the surveys were statistically representative,⁷⁵ so the results may not accurately represent the experiences of all households receiving support.

Note that in our analysis we have not used the survey data on three indicators: the proportion of households in which the assistance helped to meet monthly food requirements, improve household food consumption, and reduce debt. None of these indicators tell us directly about negative coping strategies. The first two relate to meeting basic needs and smoothing consumption, which may be considered precursors to helping households to avoid negative coping strategies.⁷⁶ An affirmative reply to the third indicator – if the

⁷⁴ The evaluation of the Cote d'Ivoire 2020 payout had not been completed when the VfM assessment was undertaken.

⁷⁵ The Cote d'Ivoire sample was considered to be representative, although two regions were excluded due to budget constraints. The Senegal sample was not statistically representative. In Madagascar, households were randomly selected, but challenges in getting access to reliable location information meant that the full intended sample size was not reached, suggesting that the results may not be representative. For Zimbabwe, the evaluation does not state whether the sample was statistically representative.

⁷⁶ At the end of this section we demonstrate that inclusion of these data would not alter our judgement.

assistance helped households to pay off debt – would suggest that households are not facing the need to resort to negative coping strategies.

Two of the surveys (Madagascar and Zimbabwe) also asked respondents about the **coping strategies adopted at the time of the drought**. We have not used these data in our analysis as they do not provide evidence on *the extent to which the ARC-financed assistance helped* households to avoid negative coping strategies (and consequently the responses on the two sets of data do not always tally).

Table 33: Percentage of survey sample households reporting that the ARC assistance helped them to avoid negative coping strategies

	Senegal ¹	Madagascar			Zimbabwe ²
	Food	Food	Nutrition support	WASH	Cash
Sample size	222	206	49	59	283
Helped prevent sale of livestock / assets	90%	24%	57%	56%	below 50%
Helped prevent migration for work	73%	63%	47%	51%	below 50%
Helped prevent taking children out of school	78%	41%	57%	68%	below 50%

Notes: 1 – The Senegal evaluation covers interventions by the government and the ARC Replica partners (Start Network).⁷⁷ 2 – The Zimbabwe evaluation did not report exact percentages against its data tables; the bar chart shows the proportion to be significantly below 50% (the threshold required to meet the 'good' standard) in all cases. Red font indicates where the proportion of households falls below the threshold required to meet the 'good' standard (50%).

Source: Payout evaluations – Senegal (December 2021), Madagascar (December 2021), Zimbabwe (September 2021).

The household survey conducted as part of the **Côte d'Ivoire** 2019 payout evaluation **did not ask households if the assistance (an unconditional cash transfer of US\$ 90)⁷⁸ had helped them to avoid resorting to negative coping strategies**. Instead, it asked how they had used the funds. Only 7% said they used the cash to buy food; most had used the cash to pay for school fees (60%) or to buy fertilisers and agricultural equipment (18%). The evaluation observes that the cash was not used for its intended purpose in most households, i.e. to alleviate food needs due to the drought, because it arrived too late – payments were made 13 months after the ARC payout was disbursed. Due to this delay, and evidence that the majority of households used the cash to invest in education or agricultural inputs, the evaluation questioned whether the purpose of the assistance, to limit negative coping strategies, could have been met (p. 40).

The household survey conducted by the **Senegal** payout evaluation team provides strong evidence that food distribution⁷⁹ by the government and the Start Network **helped a large**

⁷⁷ The Start Network in Senegal consists of a consortium of six NGOs which received a payout from ARC Replica of a similar value to the Government of Senegal. The VfM assessment excludes ARC Replica partners. However, the Senegal payout evaluation covers the response by the government and the Start Network, both of which provided food, and the survey does not distinguish between the two. According to the survey design, around two-thirds of survey households were government beneficiaries and one-third were Start Network beneficiaries.

⁷⁸ West African CFA Franc 50,000, using an exchange rate of XOF 1 = US\$ 0.00179 on 1 October 2020 (www.xe.com/).

⁷⁹ Survey respondents were not asked about the livestock feed intervention. We do not report the responses from cash assistance recipients, as cash was provided exclusively by the Start Network.

majority of households to avoid negative coping strategies – between 73% and 90% responded that the intervention helped them to avoid the sale of livestock, migration for work, and taking children out of school (see Table 33). This was the case despite the assistance starting six months after the ARC payout was disbursed in the case of the Start Network, and nine months after in the case of the government.

The ARC assistance was combined with a larger government Covid-19 Response Plan. This means the impact on households cannot be attributed only to the ARC support. In addition, the survey data in the payout evaluation covers food distribution by the government and by the Start Network. This means that the effects reported for the government response cannot be separated from those reported for the Start Network response.

Responses on the household survey conducted for the **Madagascar** payout evaluation suggest that the three forms of assistance – food (rice, beans, and cooking oil), nutritional support (children under five years and pregnant and lactating women), and WASH support (water and hygiene kit distribution) – **were reasonably effective at helping households to avoid negative coping strategies**. Among recipients of nutritional and WASH support included in the survey, half or more responded that the assistance had helped them to avoid the sale of assets (56–57%) and/or removing their children from school (57–68%), and around half (47–51%) said the assistance helped them to avoid migrating in search of work (see Table 33). Results among food recipients were more variable, with 63% saying the assistance helped them to avoid migration, but less than half saying it helped them to avoid the sale of assets (24%) or removing their children from school (41%) (see Table 33). There is no information in the evaluation to explain why the food assistance appears to have been less effective at helping households to avoid negative coping strategies. This is not related to the timing of the interventions, as all three interventions were delivered within the same timeframe.

ARC payments started around nine months after the ARC payout was disbursed. As such, it is surprising that many households said the assistance helped them to avoid negative coping strategies. There were other assistance programmes provided by the government and other agencies in the same areas and at the same time as the ARC-funded assistance, and the process evaluation reported that beneficiary recall related to ARC activities was unreliable, so it is possible that other programmes helped closer to the time of the drought, and/or that the combined effect of several programmes was sufficient and timely enough to help many households avoid resorting to negative coping strategies.

Survey data in the **Zimbabwe** payout evaluation indicate that the cash assistance (an unconditional cash transfer of two payments of US\$ 15 each per household) **helped only a small proportion of households avoid negative coping strategies** (the exact percentages are not reported) (see Table 33). In response to open questions in the survey (answered by 128 people), a large majority reported that the amount and frequency of payments was insufficient to make any significant difference to their situation. This was particularly so among larger families, and despite the assistance being made in coordination with other assistance programmes. Delayed implementation of payments (which started around 10 months after ARC disbursement) likely also contributed to this.

The differences across the three countries for which data are available are of note, particularly the high proportion of households in Senegal and the low proportion in

Zimbabwe reporting that they avoided negative coping strategies. There are several possible reasons for the differences, although it is difficult to say with any certainty. **Timeliness in the delivery of the interventions** does not seem to be a key factor, as there was a significant time lag between the ARC payout and the start of the intervention in all three cases (see more information under effectiveness Sub-criterion 2.1 and EQ1.1.3).

It is possible that the **types and mix of interventions** – different combinations of foodstuffs, cash, nutritional support, WASH support, and livestock feed subsidies – contributed to the observed differences. The efficacy of a given type of intervention or mix of interventions is likely to be highly context-specific, depending on local ecology, livelihoods, market conditions, and so on. The importance of the type of intervention cannot be verified without other forms of data that are not available in the payout evaluations, including whether households received more than one form of assistance.

Related to this is **the concurrent delivery of other interventions** in the same areas at the same time. This occurred in all three cases, but we do not have data on the types and volumes of combined assistance. It is possible that greater volumes of assistance were available in Senegal, as the government's ARC distributions were folded into its larger Covid-19 Response Plan. The **volume of support available to each household, and its sufficiency in relation to needs**, is another possible factor. Again, this is difficult to verify as the evaluations do not have clear data on how much of each form of assistance was received by recipient households, and we do not have the necessary data to relate volumes to needs. The fixed payment of US\$ 30 per household (in two tranches) in Zimbabwe was reported to be insufficient to make a significant difference by a high number of survey respondents, particularly in larger households.

The **intervention provider** may also have made a difference. Senegal was the only payout for which the survey data reflect the combined intervention of state and non-state actors. The evaluation identified a number of ways in which the Start Network intervention was more timely and effective than the government intervention, including earlier planning and faster procurement. The more effective response by the Start Network may have contributed to more households avoiding negative strategies.

Lastly, it is possible that the large differences between Senegal and Zimbabwe are due to **problems with data collection or analysis in Senegal**. The OPM pilot study for Senegal questions the high proportion of households reporting that the food assistance helped them to avoid negative coping strategies in the payout evaluation survey. It provides separate data from the Start Network evaluation, showing that a lower proportion of recipients of flour were helped to avoid negative coping strategies (between 59% and 74%). The pilot study suggests it is unlikely that nearly all households would have had to employ negative coping strategies (as reported in the payout evaluation) in the absence of the support, and that the difference between the statistics in the two surveys may have something to do with the way the question was formulated in the payout evaluation survey (OPM, 2021, pp. 58–60).

Judgement and rationale

Among the three cases with relevant data, one payout (Senegal) met the 'excellent' standard (successfully reducing negative coping strategies in more than two-thirds of households), while the other two (Madagascar and Zimbabwe) met the 'adequate' standard (reducing negative coping strategies in less than half of households). The Madagascar payout is

assessed as 'adequate' because less than half of *food* recipients in the survey indicated that the assistance had helped them to avoid some negative coping strategies, and the number of households receiving food assistance was manyfold greater than the numbers receiving nutrition and WASH support.

The overall judgement against this sub-criterion is therefore 'adequate': the assistance reduced negative coping strategies in some households in all payout cases, but not as many as half (which would be required to meet the standards for 'good'). Although the Côte d'Ivoire payout is excluded from the judgement, as the evaluation did not provide direct data on the reduction of negative coping strategies, there is no strong evidence to suggest that it would change the judgement, given the delay in making payments to households and the large proportion of households which used the cash to invest in education and production. Inclusion of the survey data on the effects of the payouts on food consumption would not change our judgement: the assistance helped households with food consumption in less than half of households in two of the three payouts.

The failure to help a significant proportion of households to avoid negative coping strategies in most payouts calls into question the ARC overarching objective of protecting livelihoods and saving lives. To stand a better chance of achieving this objective, and therefore providing better VfM, governments will need to find ways to reduce delays in reaching households,⁸⁰ and to provide assistance that is sufficient to meet household needs and help them to avoid resorting to negative coping strategies. Early response relative to traditional response mechanisms is recognised as critical to ARC's value proposition and is a key assumption in its own CBA.⁸¹ It is also worth noting that, as reported against the equity sub-criterion, targeting was observed to be questionable in all four payout evaluations, and poor reporting by governments means we do not know the characteristics of the households receiving support. **It is possible that support was not provided to the most vulnerable households – those that were most likely to resort to negative coping strategies.**

(3.3) ARC successfully facilitates increased sovereignty and sustainability in country-level risk planning

The third effectiveness sub-criterion relates to the extent to which ARC successfully facilitates increased sovereignty and sustainability in country-level risk planning, with country-level contingent liabilities transparently and efficiently planned for. This matters for VfM because a key dimension of the value created is increased sovereignty, sustainability, and transparency in country-level risk planning.

For our purposes, the impact on increased sovereignty will be assessed in terms of the extent to which ARC has made a useful contribution to country-owned risk management strategies, with sustainable results. This assessment draws on the findings under EQ1, in particular EQ1.2 and EQ1.3, largely based on the KIs with key respondents (i.e. Government Coordinators and Programme Supervisors) in member countries, triangulated against other relevant perspectives and broader evidence as appropriate.

⁸⁰ None of the countries in this assessment met the relevant ARC KPI around timeliness (120 days from payout to start of the intervention) (see effectiveness Sub-criterion 3.1).

⁸¹ www.arc.int/contingency-planning [Accessed 16 March 2022].

Table 34: Effectiveness performance standards (3.3): ARC successfully facilitates increased sovereignty and sustainability in country-level risk planning

	Standard	Definition	Standard met?
	Excellent	ARC has made a useful contribution (with sustainable results) to country-owned risk management strategies in the <u>strong majority</u> (i.e. >two-thirds) of participating member countries.	Not met
	Good	ARC has made a useful contribution (with sustainable results) to country-owned risk management strategies in the <u>majority</u> (i.e. >50%) of participating member countries.	Not met
	Adequate	ARC has made a useful contribution (with sustainable results) to country-owned risk management strategies in <u>some</u> (i.e. >0%) participating member countries.	Met
	Poor	Criteria for 'adequate' are not met.	N/A
Overall judgement: Adequate			

Table 35: Effectiveness evidence requirements (3.3): ARC successfully facilitates increased sovereignty and sustainability in country-level risk planning

Indicator/evidence	Definition	Type of indicator; measurement approach	Source(s)
% countries where ARC has made a meaningful and sustainable contribution to country-owned risk management strategies	<p>This indicator will be constructed based on the evidence gathered under EQ1.2, EQ1.3, and EQ1.1.1.</p> <p>We will define countries where ARC made a useful contribution (with sustainable results) based on KIIs with the Government Coordinator and Programme Supervisor in member countries.</p>	<p>Quantitative:</p> <p># countries where ARC made a useful contribution to country-owned strategies / # member countries surveyed.</p> <p>Qualitative:</p> <p>This will also be complemented by the assessment of factors impacting the extent of ARC's contribution, drawing on EQ1.</p>	<p>EQ1.2 (contribution to holistic national risk management strategies)</p> <p>EQ1.3 (sustainability of results of ARC capacity building)</p> <p>EQ1.1.1 (use of ARC as an early warning system)</p>

Detailed evidence considered for judgement against this sub-criterion

As set out in the VfM framework, this sub-criterion will be assessed by considering the percentage of countries where ARC has made a meaningful and sustainable contribution to country-owned risk management strategies. This indicator will be constructed based on the evidence gathered under EQ1.2, EQ1.3, and EQ1.1.1. We define countries where ARC made a useful contribution (with sustainable results) based on KIIs with the Government Coordinator and Programme Supervisor in member countries.

One of ARC's strategic objectives is to strengthen DRM in Africa by improving early warning systems, streamlining country engagement, and building capacity (ARC, 2019a, p. 17). ARC recognises the value of national actors in responding to the drought response in its member countries. The TWGs are composed of government institutions and departments and civil society organisations that collaborate to respond to disasters related to drought. ARC provides specialised resources and technical expertise in risk profiling, contingency and

response planning, risk layering and transfer; and M&E of post-disaster response in case of payout (ARC, 2019a, p. 26).

Between 2012 and 2021, more than 800 national experts in ESA and 2000 national experts in WCA were trained in contingency planning, risk modelling, risk profile building, risk transfer, and adoption of ARV as a robust early warning system tool (ARC ESA and WCA achievements 2012–2021(ARC 2021)). However, whether the heavy investment in country capacity building has led to increased sovereignty and sustainability in country-level risk planning is unclear. The FCDO 2021 Annual Review states: ‘What remains unclear is at what point governments become self-sustaining in terms of their capacity and ability to produce FIPs without technical assistance and oversight from ARC’. FCDO acknowledges that ‘While implementation plans and capacity building are key components of a successful development insurance system, more needs to be done to articulate the assumptions and transition points away from direct external support’.

ARC’s operations during the past four years show that many countries may not have the capacity or capability to deal effectively with planning and responding to natural disasters without any support. For example, evidence from the process evaluations shows that ARC was heavily involved in early drought monitoring processes and response planning, where payouts were made.

Regardless, ARC works to protect member countries’ sovereignty, meaning that disaster-affected nations have the opportunity to make the best use of their knowledge – of their geography, of their communities, of their pre-existing disaster plans – in the disaster planning and response. Their central involvement in response means that lessons can in principle be learned from the event and knowledge applied by them to future disasters, creating a positive feedback loop of knowledge and capability. ARC also works on the basis that a country will expand its capacity to respond to disasters autonomously or from a place where sovereignty is integral to DRM plans. Doing so will protect lives in the long term.

In this ambit, some signs of sovereignty in national risk management are starting to emerge in countries such as Senegal and Madagascar. There is evidence that Senegal values the importance of DRM and its necessity in building resilience. The TWG undertakes its own simulations, uses the payout calculators, and defines the risk parameters independently. Senegal has a dedicated team who are influential with ministers. The team has also worked well with Start Network and the ARC Replica programme in developing contingency plans. Madagascar has also demonstrated a deep understanding of the ARC model, with government staff leading risk transfer workshops while analysing and generating the results to establish RTP. Most countries are also independently using ARV as an early warning information tool to monitor their crop seasons and assess the magnitude of any potential drought.

All other countries are on longer journeys towards increased understanding of the need and mechanism of DRM. There is no evidence that ARC’s contingency planning is integrated into countries’ disaster management systems so as to facilitate increased country ownership of the contingency planning tools and independence in managing their risk. Also, there is no regular learning in ARC. If ARC systematically tracks, integrates, and acts on its learning, there is potential to increase country sovereign in risk planning over time, especially as countries continue to engage in the risk planning and response action. However, despite

ARC's good aspirations for systematic tracking and integration of lessons learned into the contingency planning process and disseminating the same to stakeholders, the evaluation found little formal evidence of formal lesson learning. Process evaluation findings do not feed into the next OP, and without learning opportunities countries' net capability to respond to a disaster does not increase and this risks jeopardising the opportunities for sustainability.

Judgement and rationale

The overall judgement against this sub-criterion is 'adequate'. ARC has made a useful contribution (with sustainable results) to country-owned risk management strategies in two member countries (Senegal and Madagascar) but less than the 50% threshold required for 'good'.

(4) Equity

In line with FCDO's VfM guidance, equity relates to ensuring that benefits are fairly distributed:

'How fairly are the benefits distributed? To what extent will we reach marginalised groups? ("spending fairly")' (FCDO, 2020, p. 3)

For our VfM assessment, the following sub-criterion will be used for the equity criterion:

(4.1) ARC-funded drought response reaches the people who are most in need.

(4.1) ARC-funded drought response support reaches the people who are most in need

There is just one equity sub-criterion, which relates to the extent to which ARC-funded drought response support reaches the people who are most in need. This matters for VfM because, where resources are scarce, the focus should be on those who are most in need. But over and above this, the household-level impact of support (i.e. lives saved, consumption smoothing, productive activities, etc) are likely to be highest for the poorest and most vulnerable.

In order to reach the people who are most in need, good planning is important (i.e. pre-specified targeting criteria based on a documented needs assessment), as is accurate record-keeping (to monitor that the assistance actually reaches who it is intended to reach, and to enable retrospective evaluation). For this formative evaluation, we reviewed government planning and processes around targeting, to establish if 'adequate' performance was achieved. Outcomes (i.e. whether the support actually reached the people who were most in need, as defined in the FIP) are assessed to establish if 'good' or 'excellent' performance were achieved.

Table 36: Equity performance standards (4.1): ARC-funded drought response support reaches the people who are most in need

	Standard	Definition	Standard met?
	Excellent	<ul style="list-style-type: none"> Interventions are delivered to target populations in line with the approved FIP in <u>all</u> cases since late 2019 where a payout was triggered; and The criteria for 'good' hold. 	Not met
	Good	<ul style="list-style-type: none"> Interventions are delivered to target populations in line with the approved FIP in the <u>majority</u> (i.e. >50%) of cases since late 2019 where a payout was triggered; and The criteria for 'adequate' hold. 	Not met
	Adequate	<ul style="list-style-type: none"> Interventions are delivered to target populations in line with the approved FIP in <u>at least one</u> case since late 2019 where a payout was triggered. The relevant government bodies keep accurate records of beneficiaries, including key demographic and vulnerability characteristics, in <u>all</u> cases since late 2019 where a payout was triggered (process); and FIPs contain pre-specified targeting criteria which identify vulnerable sub-groups and which are based on a prior needs assessment, in <u>all</u> cases since late 2019 where a payout was triggered (planning). 	Not met Not met Met
	Poor	Criteria for 'adequate' are not met.	Met
Overall judgement: Poor			

Table 37: Equity evidence requirements (4.1): ARC-funded drought response support reaches the people who are most in need

Indicator/evidence	Definition	Type of indicator; measurement approach	Source(s)
% countries where interventions are delivered to target populations in line with FIP	The FIP sets out the intended target population for the ARC-funded drought response. The payout evaluations include an assessment of targeting performance.	Quantitative # countries reaching FIP target groups / # payout countries	- Process/payout evaluations - OPM Pilot Impact Country Study: Senegal
Relevant government bodies keep accurate records of beneficiaries	The payout evaluations provide evidence on government record-keeping in relation to beneficiaries.	Qualitative, standalone	- Process/payout evaluations
FIPs contain clear targeting criteria which identify vulnerable sub-groups, based on sound prior needs assessment	We examine the FIPs for evidence of: (1) documented needs assessment; and (2) pre-specified targeting criteria.	Qualitative, standalone	- FIPs

Indicator/evidence	Definition	Type of indicator; measurement approach	Source(s)
Contextual background information on whether ARC is achieving its objective of transforming DRM approaches to ensure equality for vulnerable men and women	We will draw on information from EQ1.4 to the extent that it helps us to explain ARC's performance against the standards.	Qualitative	- EQ1.4

Detailed evidence considered for judgement against this sub-criterion

Data against this sub-criterion come from the FIPs and evaluations on four payouts, shown in Table 32.⁸²

The **Côte d'Ivoire FIP (October 2019)** describes the needs assessment exercise used to identify the regions and departments to be supported. The payout evaluation reported that the needs assessment was partially in line with SOP4 standards and assessed the survey on rainfall deficit as 'not very rigorous and useful' (p. 29). The FIP also sets out targeting criteria for villages and households, with the latter based on a combination of current household vulnerability (related to rainfall deficit, food insecurity, and income) and household demographic characteristics (health, disability, age, and death of spouse). The FIP sets out targeting processes, including plans to verify household eligibility once beneficiaries have been identified (via a monitoring survey).

The FIP states that the monitoring system would include information on target households/beneficiaries, and the M&E plan includes 'beneficiaries were correctly targeted' as an output, to be measured by 'reduced' inclusion and exclusion errors and reported in a targeting report, with beneficiaries disaggregated by age and gender in a final distribution report. The payout evaluation reported that it saw **no evidence of records on the households which received support, or any quantitative data on targeting**. It reported that 'limited monitoring was carried out during the implementation' (p. 24), and no information on inclusion and exclusion rates was included in the final report.

The lack of data on beneficiaries makes it **impossible to say if the intervention was delivered to target populations in line with the targeting criteria outlined in the FIP**. Information reported in the payout evaluation indicate that the data and processes used for targeting were not robust, suggesting that the target populations were not consistently reached. This includes the following shortcomings: some data in the PMT survey had been collected one to four years earlier, according to focus group participants; low knowledge on targeting criteria and procedures among local actors, and confusion about the precise

⁸² Evaluation of the Cote d'Ivoire 2020 payout had not been completed when the VfM assessment was undertaken.

targeting criteria due to the use of PSSNP data to identify beneficiary households;⁸³ lack of clear community targeting mechanisms – village targeting committees were not known to local populations or the local ARC teams, and potential beneficiaries were not involved in the validation of targeted households; and failure to correct proven exclusion errors by the village committees. In terms of gender, almost all key informants reported that female-headed households were prioritised, even though this was not an explicit criterion in the FIP.

The Senegal FIP (December 2019) describes the needs assessment used to identify regions and departments to be supported. The payout evaluation reported that the monitoring systems used for the needs assessment proved to be efficient but observed that disaggregation of ARV data to departmental level would provide more accurate information. For households receiving rice,⁸⁴ the FIP states that ‘the criteria will focus on the assessment of the state of food security, nutrition, vulnerability, livelihoods, etc.’ (p. 38), with beneficiary lists to be validated at community level, followed by an audit survey to check eligibility. The nutritional support was to be targeted at children with MAM and SAM based on mid-upper arm circumference (MUAC) screening. Criteria for distribution of the livestock feed subsidy are not stated in the FIP.

The M&E plan in the FIP includes ‘beneficiaries were well targeted’ as an output, to be measured by the inclusion error rate, with beneficiaries disaggregated by age and gender. The payout evaluation reported that **government data on beneficiaries were not disaggregated by gender or other vulnerabilities**. It reported that the government relied on its existing regional monitoring systems, which ‘did not meet ARC requirements for rigorous, timely monitoring’ (p. 39) or reporting.

The lack of data on beneficiary characteristics makes it **impossible to say if the intervention was delivered to target populations in line with the targeting criteria outlined in the FIP**. The payout evaluation asserts that Covid-19 targeting processes were followed instead but does not provide information on the Covid-19 processes or criteria. Information reported in the payout evaluation indicate that the data and processes used for targeting were not robust – in particular, there were inaccuracies in the Single National Registry (Registre National Unique database used to identify beneficiaries,⁸⁵ and there was a failure to follow the community targeting process outlined in the FIP, which could have helped to correct for inaccuracies in the Single National Registry.⁸⁶ Survey data in the evaluation are indicative of problems – 13% of the sample (which was selected from the beneficiary lists provided by the government) did not receive any assistance – although firm conclusions cannot be drawn, as the sample was not statistically representative. In terms of gender, the evaluation survey sample suggests that interventions reached a comparable number of female- and male-headed households (52% of survey respondents were from

⁸³ The evaluation does not say why this created confusion. It may be because targeting criteria used for the PSSNP are different, and stakeholders assumed that use of PSSNP data meant that the PSSNP criteria should be applied.

⁸⁴ Rice distribution is planned in the FIP. This later changed to a mix of food and non-food items as the ARC response was merged with the Covid-19 response.

⁸⁵ For example, some households classified as poor owned substantial resources and land.

⁸⁶ Evaluation findings that 92% of survey respondents thought the selection process was fair have not been taken into account; as recipients of support, they were likely to perceive the process as fair.

female-headed households), but, again, without statistically representative data, we cannot draw firm conclusions.

The Madagascar FIP (May 2020) describes the needs assessment exercises used to select regions for assistance. The targeted areas were later changed as the drought continued to evolve, and the payout evaluation noted that it was not clear how later analyses of need, justifying the changes, were done. The FIP outlines household targeting criteria for food assistance based on demographic characteristics (single parents (especially mothers with dependent children and older people), inability to work due to age or disability, number of children under five, household size) and land availability. For the nutritional intervention, children under five with MAM and SAM and pregnant and lactating women with MAM were to be supported based on MUAC classification, until the target numbers were reached. For water distribution, the FIP identifies households with malnourished children as recipients, but does not say how they will be identified.

The M&E plan in the FIP includes ‘use of an effective targeting system’, and stipulates disaggregation of beneficiaries by gender and age in each intervention. The payout evaluation team reported that it **did not see complete beneficiary lists for any of the interventions**, and the information provided was not disaggregated by gender or other vulnerability characteristics. It reported that M&E was ‘very poor’ (p. 26), with insufficient detail to give an accurate picture of activities, including targeting.

The lack of data on beneficiary characteristics makes it **impossible to say if the intervention was delivered to target populations**. The payout evaluation reported that there was ‘no clarity on ... how households were selected for assistance’, especially for food distributions. It found significant changes to ARC activities and targeting which were not updated in the FIP, although ARC confirmed that it had agreed to the changes. The Centre de Coordination Opérationnel anti-Kéré managers reported that food beneficiaries were selected according to some of the criteria set out in the FIP – age (over 65 years) and household size – and a new criterion, households with only one meal a day. The nutrition targeting happened as planned, although clinic records did not distinguish between distributions to women and children. Targeting for water distribution also changed – initially to the elderly and those who ate only once a day, and then to all households in target areas. The household survey conducted by the process evaluation suggested that the proportion of recipient households headed by a woman was around 57%, suggesting that the criteria of targeting female-headed households was met to some extent. However, 37% of survey respondents said they did not believe the households most affected by the drought received food assistance, and 29% said they did not think the selection process was fair,⁸⁷ despite having received support themselves.

The Zimbabwe FIP (updated May 2021) identifies the districts to be supported, based on needs assessment using the 2019 Annual Rural Livelihoods Assessment report (ZimVAC). The targeted districts were later changed, when 2020 ZimVAC data were released, but the FIP was not updated. The FIP states that assistance will be provided to ‘food insecure labour-constrained households (the chronically ill, older-person-headed households and

⁸⁷ The proportions reported in the process evaluation report text and in Figure 27 in that document are different. We have used the values shown in Figure 27.

child-headed households)’ (p. 25), and, in another part of the document, that ‘the most vulnerable are prioritised first, for example child- and female-headed households’ (p. 22).

The FIP states that monitoring surveys will be undertaken with beneficiaries or key local focal points. The evaluation team reported that **‘no monitoring or detailed reporting has been done’**, including a breakdown by age, gender, or other vulnerabilities, so it could not confirm whether the identified target groups were supported.

It is thus not possible to say if the intervention was delivered to the target populations outlined in the FIP. Information reported in the payout evaluation suggests problems with targeting. There were ‘numerous complaints’ among survey households of payments not being received, even though the households were selected from verified beneficiary lists. The evaluation implies that a failure to communicate reductions in the number of target households to the districts (as the number of payments was increased from one to two) may partly explain the lack of payment to households that had been registered. The evaluation also reported that some targeted wards were left out completely, although ‘no explanation for this could be determined’ (p. 20). High proportions of beneficiaries and community leaders (around 80% in each case) said the selection process was fair, but they also identified reasons why some of the most vulnerable were excluded, including being unable to attend public meetings, and not having access to a mobile phone. In relation to gender, the evaluation reported that 57% of the randomly selected respondents were female household heads.

The evidence on targeting is similar across all four payouts. In all cases, contingency plans outlined geographic and household targeting according to vulnerability and set out plans for M&E and reporting. More than anything, this is perhaps a reflection of compliance with ARC’s Contingency Planning Standards and Guidelines and templates, which require information on targeting.⁸⁸ But there is a **significant gap between planning and implementation**, with no countries keeping accurate records on beneficiaries, and evidence that targeting criteria and processes were not followed in practice.

OPM FE2 EQ1.4 provides some insights into the reasons underpinning the failure to implement targeting as planned. First, it suggests that while core country staff recognise the relevance and importance of gender and vulnerability, facilitated to a degree by ARC capacity building, more needs to be done to embed a gender-sensitive approach to DRM, and to broaden the approach beyond gender to other vulnerabilities (EQ1.4.2). Second, the OPM FE2 evaluation corroborates our assessment of weak M&E in all recent payouts and notes that the ARC M&E team is working to increase country-level M&E capacities and resources (EQ1.4.3). Third, the evaluation found no evidence of community participation in

⁸⁸ The guidelines indicate that OPs should include information on needs assessment processes and targeting (‘how they will carry out targeting of beneficiaries, the expected profile of beneficiaries and categories of beneficiaries, what type of targeting mechanisms and criteria will be used to identify the different categories of beneficiaries, and how they will ensure that the appropriate assistance reaches the intended beneficiaries in a transparent manner with attention to gender equality and social inclusion’) (p. 12) and that FIPs should provide further information on affected/at-risk areas, targeting processes, and the estimated number of beneficiaries (p. 24). According to the ARC template, the OP must provide (1) a paragraph on the vulnerability (sub-national, gender, age cohort, rural/urban, household, etc.) of those most affected by drought; and (2) the type of targeting mechanism and criteria to be used (e.g. geographic, socioeconomic, livelihoods based, both, etc.).

the formulation of OPs and proposed that such engagement would help to improve targeting and intervention design (EQ1.4.1).

Judgement and rationale

In relation to the first sub-criterion, all FIPs contain targeting criteria identifying vulnerable sub-groups, with geographic targeting based on needs assessments. **This is sufficient to meet the ‘adequate’ standard.** The shortcomings in some of the needs assessments are not considered sufficient to bring the judgement down to poor. In relation to household targeting, the criteria may not have been precise enough to operationalise at the local level: for instance, none of the FIPs ranks the criteria in priority order. This created problems against Sub-criterion 3 (see below). There is also no explicit reference to gender in the targeting criteria in two of the FIPs (Côte d’Ivoire and Senegal).

In relation to the second sub-criterion, detailed records on beneficiaries who received assistance, disaggregated by demographic and vulnerability characteristics, were not kept in any of the payouts, despite commitments to do so in the FIPs, **leading to a judgement of ‘poor’.** This is related to a wider problem of poor M&E in all of the payouts, described in the payout evaluations and under EQ1.4. The payout evaluations identified problems such as no specific institution being designated to carry out the M&E plan (Côte d’Ivoire), and the lack of dedicated monitoring beyond existing, inadequate, M&E systems (Senegal).

In relation to the third sub-criterion, we cannot say whether, or to what extent, interventions were delivered to target populations in any of the payouts, **leading to a judgement of ‘poor’.** Problems with targeting data and processes in each payout suggest that target populations were not consistently reached. Survey data provide some evidence that female-headed households may have been prioritised.

As the standards needed for a judgement of ‘adequate’ are not met for two of the three sub-criteria, the overall judgement is ‘poor’. The failure to ensure that interventions are always delivered to those that most need them represents poor VfM: the greatest impact will be achieved with the available resources if those resources help the poorest and most vulnerable households to smooth their consumption and avoid resorting to negative coping strategies. To improve VfM, countries need to design and follow clear targeting processes and criteria, which will require the systems and capabilities to operationalise targeting plans at the local level. They also need to improve M&E systems, including capturing and recording information on beneficiaries, in order to monitor whether interventions reach those that most need them. We recognise that these improvements require action by country governments and are not fully within ARC’s control. However, ARC can facilitate these improvements by supporting country staff to develop capabilities related to targeting, to embed gender and vulnerability-sensitive approaches, and to strengthen country M&E systems (see specific recommendations against formative evaluation EQ1.4).

Recommendations

This section provides recommendations against the second part of the evaluation question: **‘What improvements could increase the VfM of ARC?’.**

Economy

To improve economy, ARC needs to find ways to reduce running and reinsurance costs, and consider how these reductions can translate into lower-cost policy premiums for member states. Specific recommendations include the following:

- ARC Ltd should take measures to reduce its running costs as a percentage of the volume of premiums, in the first instance by increasing the volume of premiums (see also the next bullet point).
- Both ARC Ltd and ARC Agency should look for ways to reduce running costs. In both, this should involve reviewing the staff structure and salary scales. For ARC Ltd, this should also involve reviewing administrative, legal, and insurance costs.
- ARC Ltd should reduce reinsurance levels, given the high levels of capital held.
- ARC Ltd should consider ways in which it could reduce the price of policy premiums in order to extend cover to countries where price is a constraint on the purchase of insurance. This may involve a combination of reducing running costs and reducing the level of reinsurance.

Efficiency

To improve efficiency, ARC needs to improve the accuracy and reliability of drought prediction, and corresponding confidence in payout decisions, and to develop a clear capacity development strategy and measurement framework, in order to monitor country progress. Specific recommendations include the following:

- ARC Ltd should undertake or commission a full review of the ARV model in order to improve the accuracy and reliability of its drought prediction and to restore confidence in the model and corresponding payout decisions. This should include checking for systemic changes to the model, given technological advances in risk modelling, as well as checks on the types, quantity, and quality of datasets used in the ARV.
- ARC Agency should put in place a clear capacity building strategy which sets out how long-term and sustained capacity is expected to be achieved. It also needs a measurement framework, including the collection of data at country level, in order to assess and demonstrate progress in each country.

Effectiveness

To improve effectiveness, ARC needs to support governments to implement planned interventions more effectively and to reach beneficiaries more quickly than is currently the case, so that the need to resort to negative coping strategies is reduced in more households. ARC needs to support government M&E, and improve payout evaluations, so that both can properly assess the effectiveness of ARC-supported interventions. And ARC needs to develop ways to measure and monitor progress in sovereignty and sustainability in country risk planning among member state governments. Specific recommendations include the following:

- ARC Agency needs to find ways to facilitate and support a faster response to drought by governments, so that support reaches beneficiaries more quickly and helps them to

avoid negative coping strategies. This includes key aspects of planning, such as having an active bank account to receive the payout and assessing any connectivity issues which may delay transferring cash support to beneficiaries in more remote areas. Regular discussions or mock exercises may help to improve preparedness.

- Sound intervention design is also key to timely and effective drought response. A review of the global evidence base may yield useful learning on the most effective forms of intervention in disaster response efforts. There may be a case for encouraging governments to reduce the complexity of interventions: for example, if cash transfers can be shown to be faster than other forms of assistance involving the procurement, transportation, and distribution of supplies.
- Encouraging governments to adopt more collaborative responses, capitalising on the comparative advantages of state and non-state actors, may also help to improve the speed and effectiveness of responses.
- ARC Agency should ensure that changes to FIPs during implementation are documented, as per the guidelines. This should help to improve the ability of payout evaluations to assess the effectiveness of the drought response and make recommendations to improve subsequent payout implementation.
- Improved capacity building around country M&E is also important to ensure that governments collect and report accurate data on the effectiveness of their interventions.
- Payout evaluations need to be strengthened in order to enable them to better understand the effects of ARC assistance on households. This may include more robust evaluation designs, with larger and representative samples, in order to provide more precise estimates of effects on households, and qualitative research to explore reasons where impact is limited.
- ARC Agency should develop and establish ways of measuring and monitoring progress on sovereignty and sustainability in country risk planning. This may include using country public financial management assessments to assess improvements in DRM reporting requirements to help governments track and monitor resources allocated to DRM. ARC Agency could also analyse and review countries' sectoral development policies to assess whether countries incorporate DRM adaptation into their policies.
- Systematic learning from each drought response, via sound payout evaluations, is also important to inform subsequent planning and implementation by country governments, and thereby to increase their ownership of risk.

Equity

To improve equity, ARC Agency needs to help recipient governments to improve the design and implementation of needs assessments and targeting methodologies, and the reporting of disaggregated beneficiary data, in order to ensure that support reaches those who most need it. ARC Agency also needs to be able to monitor the effectiveness of targeting through more robust payout evaluations. Specific recommendations include the following:

- Recipient governments and ARC need to know who receives ARC-financed support, and whether they are as intended: i.e. as identified in needs assessments and targeting criteria. This requires sound needs assessment and appropriate targeting criteria,

capacity to implement targeting processes and criteria at all levels of government, and M&E systems which can record and report disaggregated beneficiary data. ARC needs to strengthen its capacity building in these areas.

- ARC Agency needs to determine the threshold at which changes to targeting criteria require formal revisions and justification in FIPs and written approval from ARC Agency, to ensure that governments and payout evaluations have a clear framework against which to monitor targeting.
- Payout evaluations need to be strengthened to enable them to provide more robust assessments of the effectiveness of targeting.

Annex E Online survey

E.1 Key findings

The online survey was completed by government stakeholders in 16 ARC member states, most of whom have a current policy. The key findings are as follows:

- **Levels of understanding about ARC are higher at the technical level than at the political level.**
 - 10 out of 16 (63%) respondents believe that key government staff responsible for disaster preparedness and response, and those in the ministry of finance in their country, have a **moderate to high understanding of ARC's mandate and objectives** and nine out of 16 (56%) stated that there is a **moderate to high understanding of ARC's products and services**.
 - 10 out of 16 (63%) **expressed a neutral or moderate view on the understanding of ARC** among decision makers in their country (meaning they either 'somewhat agreed' or neither agreed nor disagreed with the statement that 'ARC's mandate, objectives, products and services are understood by parliamentarians and politicians') and 11 out of 16 (69%) had a similar **view on ARC's success in engaging with decision makers**.
- There is a **positive perception of ARC as an agency of the AU (10 out of 16, or 63%)** and a strong preference for ARC headquarters to be located in a member country (12 out of 16, or 75%). The majority of **respondents favour ARC's relocation to Côte d'Ivoire** (nine out of 16, or 56%).
- Respondents expressed a **general emphasis on the importance of sovereign insurance, although it is perhaps surprising that only 11 out of 16 – 69% –** rated it as 'Important' or 'Very important', and it was only 'Somewhat important' for two long-term ARC supporters. In addition to insurance, the two most frequently used financing options to address drought were firstly budget reallocations and secondly national contingency/emergency funds. Two countries had no financing options to manage their drought risk, other than ARC.
- The primary considerations for countries with an ARC insurance policy when deciding to take up a policy are the following: *payouts enable a much swifter and more certain response to drought*; and *pooling of risk with other African countries as solidarity and to reduce insurance costs*.
- Primary considerations for not taking up a policy for countries without an ARC insurance policy are the following: the economic and social benefits of acting early are not worth the cost of insurance; and the cost of insurance is too high.
- The level of **trust in the ARC drought risk model was ranked as moderate** by 13 out of 16 (81%) respondents; only one country had high trust in the model.
- Similarly, most respondents (14 out of 16, or 88%) indicated that ARC policies and capacity building were somewhat important or important in relation to all of their

government's efforts to plan for and respond to drought; no respondent said that ARC was very important.

- For the 12 countries that have received **capacity building from ARC**, most capacity building activities were ranked as **somewhat or very successful**. Improved coordination was the highest ranked option, with 15 out of 16 respondents (94%) selecting 'Somewhat successful' or 'Very successful', while gender integration (gender equity and social inclusion (GESI)) received the lowest overall ranking for success, with only one out of 16 respondents (6%) selecting 'Very successful'.

E.2 Survey methodology and scope

Overview

The purpose of the ARC FE2 Perceptions and Demand Survey was to conduct a light-touch inquiry into countries' knowledge and perceptions of ARC as an institution and actor in the DRF ecosystem.

The survey complemented the extensive KIIs – with representatives from ARC member states, staff, donors, partners, and DRF experts – carried out from late 2021 to early 2022, giving relevant government representatives the opportunity to provide quantitative and qualitative feedback on their experience with ARC. It also asked about their perceptions of ARC's capacity building, ARC's relocation, and government DRF strategies, among other topics.

The survey was conducted in English and French via Microsoft Forms (online) from 1 to 24 March 2022. It was sent to government contacts from 26 African countries who are members of ARC, of which 15 submitted responses. It should be noted that two separate forms were submitted by different government contacts in Niger. Therefore, the OPM survey team considers the total number of country responses to be 15, while it considers the number of respondents to be 16.

Table 38: Summary of survey recipients and respondents

	Current/previous policy holders	Members with MoU, no policy ever purchased	Members without MoU	Total
Total number contacted	14 Côte d'Ivoire, Chad, the Gambia, Kenya, Mauritania, Madagascar, Malawi, Mali, Niger, Senegal, Sudan, Togo, Zambia, Zimbabwe	7 Comoros, Djibouti, Lesotho, Nigeria, Rwanda, Somalia, Mozambique	5 Burundi, Gabon, Guinea Bissau, Liberia, Sierra Leone	26
Number of responses received	13 Côte d'Ivoire, the Gambia, Kenya, Madagascar, Malawi, Mali, Niger (2), Senegal, Sudan, Togo, Zambia, Zimbabwe	3 Not stated, Comoros, Somalia	0	16

The survey drew on the survey conducted for FE1, but adapted many elements for the needs of FE2. Survey questions and response options are given at the end of this annex. All data, figures, and tables included in this annex were extracted from the Microsoft Forms survey software.

Scope

The survey comprised 34 questions, divided between five thematic sections:

- respondent context and ARC involvement (seven questions);
- understanding and perceptions of ARC (nine questions);
- demand for ARC (13 questions);
- ARC's role in DRM/DRF (four questions); and
- final comments (one question).

Question formats

- Open-ended response.
- Multiple choice.
- Ranking.
- Likert scale.

Filters were included when applicable to redirect respondents when a question/section would not apply to them. The questions with filters are noted within the complete list of survey questions at the end of this annex.

E.3 Survey analysis

Section 1: Respondent context and ARC involvement

The list of respondent countries is as follows: Comoros, Côte d'Ivoire, the Gambia, Kenya, Madagascar, Malawi, Mali, Niger, Senegal, Somalia, Sudan, Togo, Zambia, Zimbabwe.⁸⁹

The survey demonstrates an even representation from the African continent – with half the responses coming from west Africa and half from ESA. The survey captured responses from all countries that currently have a policy, apart from Mauritania, with the addition of three countries that do not currently have a policy (Kenya, Somalia, and Comoros).

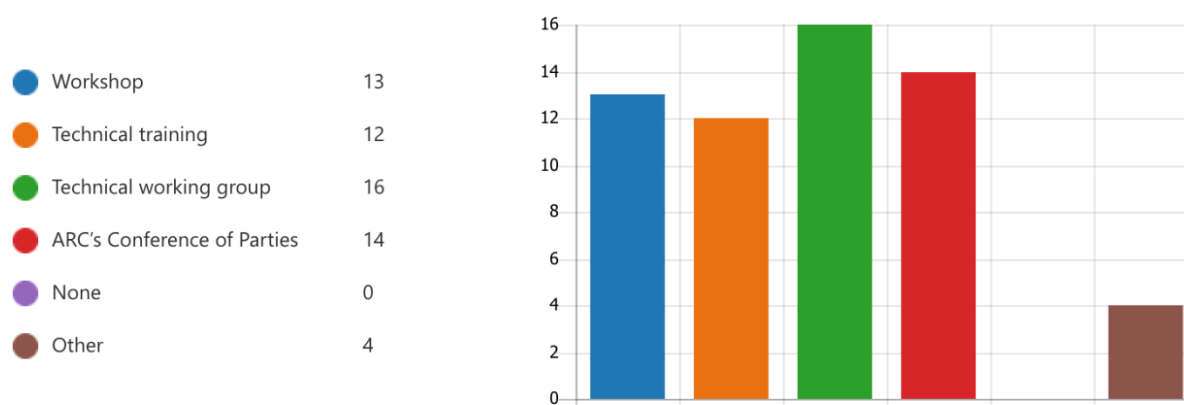
Respondents came from a range of different government departments, with the key ones being as follows: five from departments specifically focused on disasters; three from ministries of finance; three from departments working on food security; and two from the

⁸⁹ One respondent did not provide their country, department, or position and therefore is not noted in the above list. They did, however, respond to other survey questions.

office of the prime minister. Almost all of the respondents (14 out of 16) were Government Coordinators for ARC.

The amount of time in respondents' current position was diverse, ranging from six months to nine years. However, it is important to note that all respondents have engaged in at least one ARC activity, and the majority had engaged in all four of the primary options provided by the survey (see Figure 25).

Figure 25: Respondent engagement with ARC



Section 2: Understanding and perceptions of ARC

The first part of survey Section 2 posed questions concerning **how well ARC is understood by country stakeholders** – firstly by key government staff responsible for disaster preparedness and response and those in the ministry of finance, and secondly by parliamentarians and politicians.

- At the technical level, understanding is fairly high. We found that 10 out of 16 (63%) respondents believe that key government staff in their countries have a **moderate to high understanding of ARC's mandate and objectives**, and nine out of 16 (56%) respondents stated that there is a **moderate to high understanding of ARC's products and services** among government staff.
- At the political level, however, the results were less positive. 10 out of 16 (63%) respondents **expressed a neutral or moderate view on the understanding of ARC** among decision makers in their country (meaning they either 'somewhat agreed' or neither agreed nor disagreed with a statement that 'ARC's mandate, objectives, products and services are understood by parliamentarians and politicians') and 11 out of 16 (69%) had a similar **view on ARC's success in engaging with decision makers**.
- As one of the survey respondents stated, 'The ARC programme is well understood by the ministries involved. Parliamentarians and other politicians are not at the same level of understanding.'

The second part of Section 2 covered the respondents' perceptions of ARC as an **African institution and its location**. As seen in the figures below, most respondents tend to agree on the following:

- It is beneficial for ARC to be an entity of the AU. This may be attributed to the prestige that often accompanies being an AU agency, as well as the enhanced trust in ARC Group by African countries (Figure 26).
- Member and non-member states would prefer to see ARC's headquarters based in a member country, as opposed to its current location in South Africa, a non-member country (Figure 27).
- The proposed move to Abidjan in Côte d'Ivoire – an ARC member state – is supported by most respondents (Figure 28)

Figure 26: Respondents' views of ARC as an AU agency

Does the fact that ARC is an agency of the African Union make you view it differently than if it were a non-African entity?

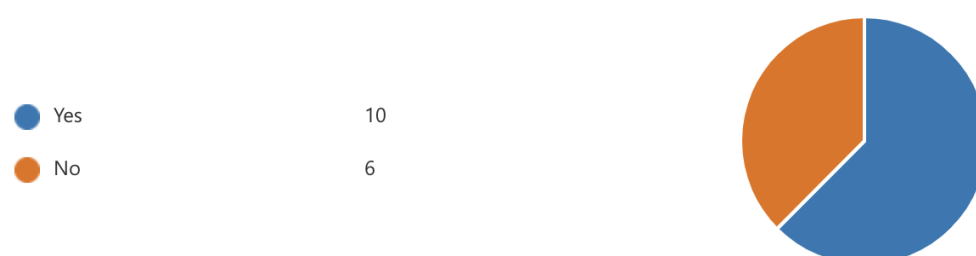


Figure 27: Respondents' views on ARC's relocation

ARC is currently based in South Africa, a non-member country, and is planning to move headquarters to Côte d'Ivoire, an ARC member country. Is ARC's location important to you?

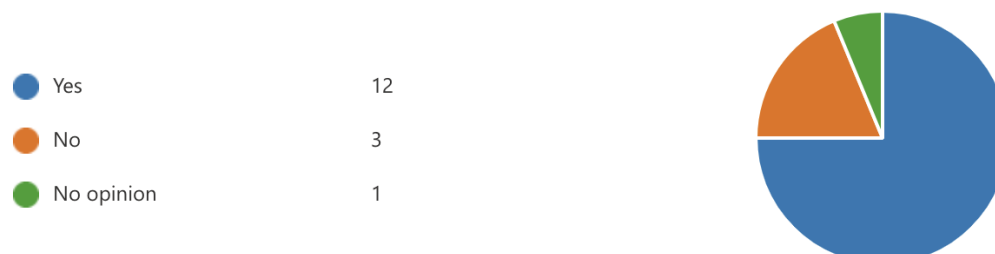
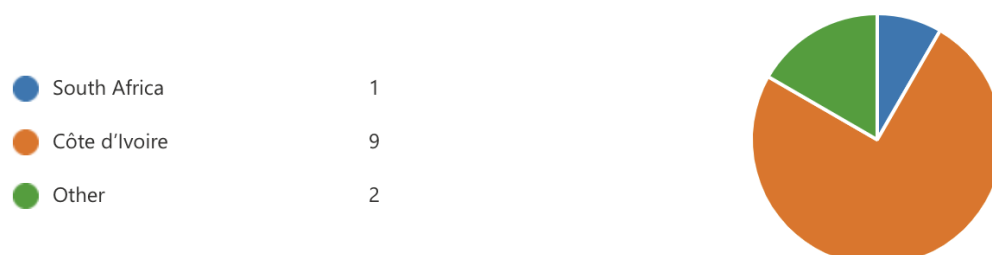


Figure 28: Respondents' preferences for ARC's host country

Which location would you prefer?



Section 3: Demand for ARC

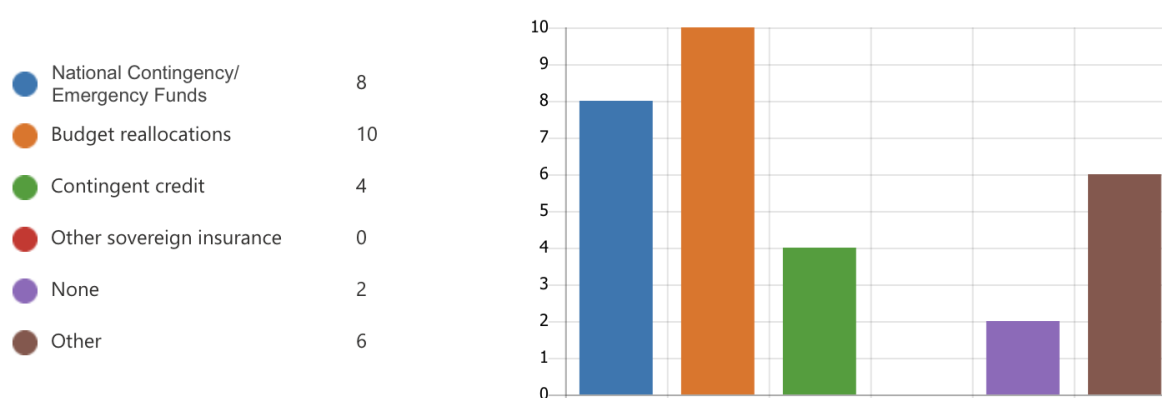
Section 3 of the survey aimed to explore different factors that might influence a country's demand for ARC, including how ARC fits into the country's DRF work more broadly, and what other DRF mechanisms the country uses. The findings are as follows.

- A large proportion – 10 out of the 15 respondents' countries – either have a DRF strategy or one is under development.
- Perhaps surprisingly, only 10 out of 16 respondents (63%) **consider sovereign insurance to be important or very important** for their government. It was ranked as only 'somewhat important' in two countries that have bought ARC policies consistently for many years.

Figure 29 details the other financing options (outside of ARC) that governments use to manage drought. Budget reallocations and national contingency/emergency funds were selected as the most common options.

Figure 29: Responses for alternative financing options for drought risk

Beyond ARC, what other financing options does your government use to manage its drought risk? Select all that apply.



Of the 15 countries taken into account in the survey, respondents from **11 countries stated that they have a current ARC drought policy**. When asked to select up to three out of four possible **important factors for taking an insurance policy**, the responses were as follows:

- Payouts enable a much swifter and more certain response to drought (nine countries).
- The economic and social benefits of acting early are worth the cost of insurance (six countries).
- It ensures that the response is led by government instead of external actors (five countries).
- There is an ability to spread the cost of disasters over several years (fiscal management) (three countries).

In a follow-up question, respondents were asked to **rank other important factors for taking out a policy**. **75% of respondents chose 'Pooling of risk with other African countries as solidarity and to reduce insurance costs' as their first choice**, which may

be indicative of the preference for ARC to be an agency of the AU, as well as a DRM tool that is African-run and led. This answer was followed by (in order of ranking):

- the ability of ARC's risk models to accurately predict drought;
- the support from ARC to develop effective contingency plans;
- the ability to access premium subsidies;
- the broader ARC capacity building on DRM and DRF; and
- the potential of ARC Replica to increase coverage.

When respondents were asked whether it was **likely that their country would continue to purchase ARC products**, only six stated that they would and five stated they were uncertain.

For those respondents that were **uncertain**, the following explanations were provided:⁹⁰

'For [x] consecutive years, [our country] has purchased premium and had never got a trigger for even a mild drought even where it is clear that a drought condition does exist. Whereas other countries with same condition experiencing the same situation a review of their customisation was allowed as in the case of [other policyholders]. In [year], [our country] experienced drought just as in previous years some excuses were made not the least convincing.'

'The necessity of the mechanisms was demonstrated twice, for drought and for cyclone. The current decision makers are convinced of the importance of this mechanism for early response to disasters. Nonetheless, considering the impact of cyclones in [our country], the cost of the premium is high and as such it is difficult for the government to 100% commit to this amount, especially considering the economic impacts of Covid-19.'

'Because my country benefited from a payout [year] and because of political reasons we have a lot of trouble finding the necessary resources. But in [our country], humanitarian issues must take precedence over all else.'

'Because of the limited risk coverage for drought and challenges in collected data which would enable compensations, notably from NOAA.'

For those who were **certain that their country would continue to purchase ARC products**, the reasons given were as follows:

'Considering its importance in the anticipation of responses.'

'Quick response and it allows, among other things, for vulnerable populations to remain on their land and preserve their productive assets.'

'The country is actually expanding on the market-based DRR instruments and insurance is one important component of that at the macro, meso, and micro levels.'

⁹⁰ To avoid attribution to a specific respondent or country, any identifying information has been removed and is indicated using brackets.

‘There is very good collaboration between the government and ARC.’

‘Firstly, because of African solidarity. Secondly, to transfer part of the risk in order to improve budget management.’

‘The country has been affected by frequent climatic shocks which have led to economic losses, hence insurance is being institutionalised as being one of the instruments for mitigating against such disasters. If ARC also introduces the flood product, it will increase the country’s interest in purchasing the insurance as floods have become one of the prominent disasters.’

For those countries without an ARC insurance policy (four), **the primary factors reported for not taking up a policy were overwhelmingly based on cost:** *‘the economic and social benefits of acting early are not worth the cost of insurance’* and *‘the cost of insurance is too high’*.

When asked whether the amount of insurance payout from ARC matches expectations following a disaster, only three countries agreed. The majority of the respondents reported being ‘Unsure’ or had ‘No opinion’ (Figure 30). Thus, **five countries that currently have policies (four of which have had payouts) are unsure if ARC’s payouts have met their expectations.** These responses are perhaps indicative of the need for ARC to improve education on how the insurance payout mechanism works so that countries can have a better understanding of the product(s) they are purchasing (or plan to purchase).

Figure 30: Respondents’ expectations regarding insurance payouts

Following a disaster, does the amount of insurance payout from ARC match expectations?



Section 4: ARC’s role in DRM/DRF

Section 4 of the survey asked further questions about the role of ARC in the country’s DRM/DRF work. It found lower scores than ARC would be hoping for in relation to the importance of ARC, and trust in the drought risk model:

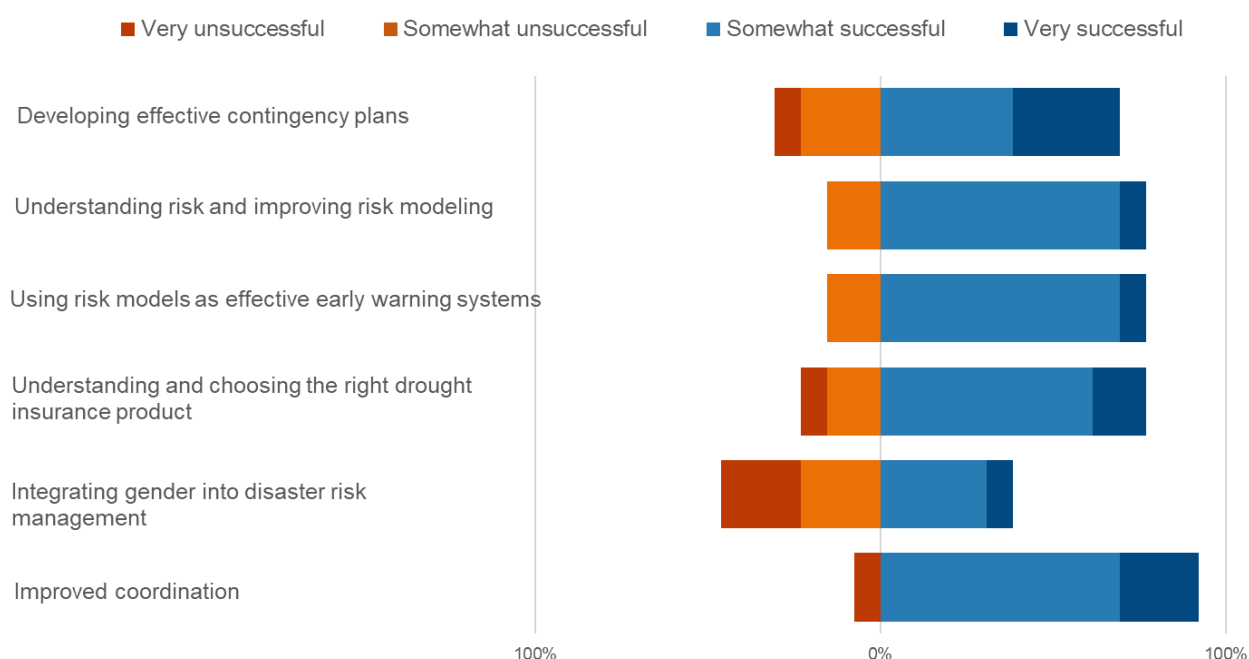
- When respondents were asked to consider **the importance of ARC policies and capacity building** in relation to all of their government’s efforts to plan for and respond to drought, 14 out of 16 (87.6%) indicated that ARC policies and capacity building were somewhat important (seven) or important (seven), although no respondent said that ARC was ‘very important’.
- When asked about **trust in ARC’s drought risk model**, only one country said they had high trust. Almost all – 13 out of 16 (81%) – said that they had ‘moderate’ trust in the model, and one had low trust.

For the 12 countries that have received **capacity building from ARC**, respondents were asked to rank the success (on a Likert scale) of ARC in building the capacity of the TWG in a range of areas.

There was a **generally positive response to these activities**, most of which had well over 50% of respondents rating them as ‘somewhat successful’ or ‘very successful’. **The only exception was the integration of gender integration (GESI) into DRM, for which only five respondents selected ‘somewhat successful’ or above (see Figure 31)**. This is likely because the gender work is much newer (the strategy was only agreed in September 2019, and then its roll-out in 2020 was significantly impacted by Covid-19 restrictions), and either people have not received this support, or respondents were at a lower point in the learning curve.

One respondent replied ‘very unsuccessful’ or ‘unsure’ to all of these questions; indeed, this respondent (who did not provide their country of origin) was the most negative throughout the survey.

Figure 31: Respondents’ rankings of ARC’s capacity building activities



Note: Excludes respondents responding with ‘unsure’ and so may sometimes sum to less than 100%.

Section 5: Final comments

For the final section of the survey, respondents were prompted to leave open-ended feedback on their experience with ARC and what they expect moving forward. A number of topics were covered in this section, ranging from critiques of the timing of product development to reflections on ARC’s organisational setup and approval for the move to Côte d'Ivoire. This is indicative of the diversity of respondents and their status of engagement with ARC (member vs. non-member), as well as varying experiences with ARC Group.

Responses by general topic can be found below:

Diversification of product offering and sustainability

'ARC needs to be even more active in quickly diversifying risk insurance products outside of drought. The accounting department is very cumbersome and slow in paying coordination fees and workshop expenses.'

'The diversification of the risk portfolio by finalising the flood and epidemic models.'

'How is the Agency going to sustain its operation given that income is now dwindling in few months to come?'

Capacity building

'ARC should organise workshops within the country.'

'Continual training on the use of ARV by the established TWGs.'

'The facilitation of exchanges of experience between countries and capacity building by peers.'

Communication with stakeholders

'It would be desirable to improve the aspect of communication for the benefit of countries that have subscribed to policies.'

'For [country], the sovereign insurance mechanism is beginning to take hold. It is known by decision makers as an innovative tool. And we are beginning to appreciate its effectiveness in dealing with the impacts of disasters. For the DRR actors, it is a pioneering mechanism in the framework of risk financing. Indeed, the current trend is to move towards these risk financing mechanisms, but as ARC products are already available to countries and no longer at the research stage, their implementation is a reference and a benchmark for others. But as it is an innovative instrument, much communication is still needed to explain its stakes, roles, and functioning so that all relevant stakeholders, and especially the decision makers, take ownership of it and get involved in its development and implementation as an important tool in the risk financing strategy and decide to allocate the necessary budget on an ongoing basis.'

Governance/institutions

'The implementation of decisions on the reform on governance for a good functioning of the group. The ARC Ltd subsidiary must work in symbiosis and in perfect harmony with ARC Agency and in perfect liaison with the national coordinators. The rapid implementation of the decision to transfer the headquarters to Abidjan in Côte d'Ivoire.'

'ARC working from political view, not humanitarian one.'

E.4 Survey questions

Table 39: Survey questions

#	Question	Response options	Type
SECTION 1: Respondent context and ARC involvement			
1	Which country's government do you work for?	N/A	Open-ended
2	What department/ministry do you work for?	N/A	Open-ended
3	What is your position at this department/ministry?	N/A	Open-ended
4	How long have you been in this position?	N/A	Open-ended
5	Do you have a specific role in relation to ARC's operations in your country?	Government Coordinator Programme Supervisor Member of technical working group None of the above	Multiple choice Filter
6	(If yes to #5) How long have you had this role?	N/A	Open-ended
7	Which of the following ARC activities have you engaged with? (Select all that apply)	Workshop Technical training Technical working group meetings ARC's Conference of Parties None of the above	Multiple choice
SECTION 2: Understanding and perceptions of ARC			
8	To what extent do you agree that ARC's mandate and objectives are understood among key government staff responsible for disaster preparedness and response, and those in the ministry of finance?	Strongly agree Somewhat agree Neither agree nor disagree Somewhat disagree Strongly disagree	Likert scale

#	Question	Response options	Type
		Unsure	
9	To what extent do you agree that ARC's offers and products, including insurance policies, risk modelling, and capacity building, are understood among key government staff responsible for disaster preparedness and response, and those in the ministry of finance?	Strongly agree Somewhat agree Neither agree nor disagree Somewhat disagree Strongly disagree Unsure	Likert scale
10	To what extent do you agree that ARC's mandate, objectives, products, and services are understood by parliamentarians and politicians in your country?	Strongly agree Somewhat agree Neither agree nor disagree Somewhat disagree Strongly disagree Unsure	Likert scale
11	How effectively do you think ARC has engaged with parliamentarians and politicians in your country in order to explain its mandate and services?	Very effectively Somewhat effectively Neither effectively nor ineffectively Somewhat ineffectively Very ineffectively Unsure	Likert scale
12	Please explain your response to the previous question regarding ARC's engagement.	N/A	Open-ended
13	Does the fact that ARC is an agency of the African Union make you view it differently than if it were a non-African entity?	Yes No	Multiple choice
14	Are you aware that ARC is made up of ARC Agency and ARC Ltd, and that they have different roles?	Yes No	Multiple choice

#	Question	Response options	Type
15	ARC is currently based in South Africa, a non-member country, and is planning to move headquarters to Côte d'Ivoire, an ARC member country. Is ARC's location important to you?	Yes No No opinion	Multiple choice
16	(If yes to #15) Which location would you prefer?	South Africa Côte d'Ivoire	Multiple choice Filter
SECTION 3: Demand for ARC			
17	Does your country have a disaster risk financing strategy?	Yes, it is completed. It is under development. No, it does not.	Multiple choice
18	How important is sovereign insurance for extreme weather events for your government?	Unsure Not important Somewhat important Important Very important	Likert scale
19	Beyond ARC, what other financing options does your government use to manage its drought risk? Select all that apply.	National contingency/emergency fund Budget reallocations Contingent credit Other sovereign insurance None of the above Other	Multiple choice
20	If 'other sovereign insurance' was selected in the previous question, please specify.	N/A	Open-ended
21	Following a disaster, does the amount of insurance payout from ARC match expectations? This question can apply to your country or what you have observed in other countries.	Yes No Unsure N/A	Multiple choice

#	Question	Response options	Type
22	Does your country currently hold an ARC drought insurance policy (either crop or rangeland insurance)?	Yes, we have a policy. We are engaged with ARC but have no active policy. We are not engaged with ARC and have no active policy.	Multiple choice Filter
23	(If no or engaged to #22) What was the main reason that your government did not purchase ARC drought insurance? Please rank in order of importance.	The economic and social benefits of acting early are not worth the cost of insurance. Cost of insurance is too high to be absorbed in our national budget. Lack of trust in the risk models, such that the insurance policy may not pay out when needed. Already have sufficient national disaster response funds (e.g. from contingency fund or budget allocations). International emergency aid is timely and sufficient. Other	Ranking
24	(If no or engaged to #22) Please clarify 'other' in the previous question (if applicable).	N/A	Open-ended
25	(If yes to #22) What do you think are the most important factors for your government when deciding to buy any sovereign disaster insurance? Please choose the top three most relevant reasons for your country.	The economic and social benefits of acting early, which are worth the cost of insurance. The ability to spread the cost of disasters over several years – fiscal management. The payouts enable a much swifter and more certain response to drought. It ensures that the response is led by government instead of external actors. Other.	Ranking
26	(If yes to #22) What do you think are other important factors for your government when deciding to buy a drought insurance policy from ARC? Please rank in order of importance.	The pooling of risk with other African countries as solidarity and to reduce insurance costs. The ability of ARC's risk models to accurately predict drought.	Ranking

#	Question	Response options	Type
		The support from ARC to develop effective contingency plans. The broader ARC capacity building on disaster risk management and financing. The ability to access premium subsidies. The potential of ARC Replica to increase coverage. Other	
27	(If yes to #22) Please clarify 'other' in the previous question (if applicable).	N/A	Open-ended
28	(If yes to #22) Do you think that it is likely that your country will continue to purchase ARC products and services?	Yes No Maybe	Multiple choice
29	(If yes to #22) Why do you think this?	N/A	Open-ended
SECTION 4: ARC's role in DRM/DRF			
30	When considering all of your government's efforts to plan for and respond to drought, how important are ARC policies and capacity building?	Unsure Not important Somewhat important Very important	Likert scale
31	To what extent do you trust the information provided by ARC's drought risk model (ARV)?	Unsure Low trust Moderate trust High trust	Likert scale
32	Has ARC been implementing its capacity building programme in your country?	Yes No	Multiple choice
33	(If yes to #32)	Very successful Somewhat successful	Likert scale

#	Question	Response options	Type
	<p>How successful has ARC been in building the capacity of the technical working group in regard to:</p> <ul style="list-style-type: none"> - developing effective contingency plans - understanding risk and improving risk modelling - using risk models as effective early warning systems - understanding and choosing the right drought insurance product - integrating gender into disaster risk management - improved coordination 	<p>Somewhat unsuccessful</p> <p>Very unsuccessful</p> <p>Unsure</p>	
SECTION 5: Final comments			
34	Do you have any further comments related to ARC's work?	N/A	Open-ended

Annex F Detailed recommendations on capacity building

Capacity building is a critical element of ARC's offering, and ARC has invested considerable time and effort in strengthening government capacity – providing training and technical support to enable countries to understand their risk and to develop an effective contingency plan. Improvements have been seen since FE1 (see Box 6). Broadly speaking, this has been effective at the technical level, but it has not been sustainable, nor is there a strategic approach to it; at the political level there are well-understood gaps.

Box 6: Relevant findings from FE1 on capacity building

Capacity building was a key focus of FE1. The key **findings** were that ARC implemented a broad capacity building programme for much longer than the one year initially envisaged but used traditional tools and with staff that were not necessarily qualified educators. FE1 respondents valued the capacity building, and some capacity had been built, but – against a backdrop of weak DRM institutional capacity – it was limited in breadth, depth, and sustainability, and was not sufficient to support the causal pathway.

FE1 made the following **recommendations**: a) to review the whole capacity building approach and re-design aspects, including providing training of trainers for ARC staff, and reassessing the appropriateness of the expectations of Programme Supervisors and Government Coordinators; b) to consider the capacity of political stakeholders and their coordination with technical experts, raising particular questions about the role of Government Coordinators; and c) to accept longer timeframes for capacity building. These recommendations were broadly accepted by ARC management.

F.1 Overarching recommendations

A radical review of the best way of providing **operational support** at country level should be taken, including whether the current Agency structure is best placed to deliver this. This should reflect the fact that many Agency staff are expensive, few if any come from a humanitarian response or public financial management background (and thus are limited in the support that they can provide in turning contingency plans on paper into effective responses), and this is a 'fly-in fly-out' model that is not able to provide continuity of support. It may be more effective for a smaller cadre of Agency staff to provide high-level input (training of trainers, ongoing support, guidance, tools) to experienced humanitarian agencies that are stationed in country, who already have a detailed national knowledge of both the technical and political aspects concerning DRM and emergency response.

Once that is clear, the sustainability of the capacity building requires a sophisticated and a **strategic approach**. After several years of ARC's operations, there is now a strong basis of knowledge from which to develop a strategy on how to institutionalise capacity. And – in recognition of the fact that building sustainable capacity is always challenging – this could be married with active lesson learning on capacity building with other organisations, such as the World Bank and ADRiFi, in order to compare costs and approaches across different programmes to flush out solutions and actively seek synergies. Donors working across these programmes could provide financial support for this lesson learning. ARC's resulting strategic approach should include a framework for developing capacity, which could draw on

the extensive literature on capacity building and perhaps on the marketing AIDA framework. This would identify the core variables for success considering individual, organisational, and institutional capacities, at both political and technical levels.

This approach would include **MEL**. It would explore how to develop a baseline (likely using the scoping papers) and would explicitly aim for graduation from ARC's capacity building support. It would include indicators or standards for training delivered in person and through ARCAcademy, ensuring that there is a continual improvement plan, as well as peer-to-peer learning and learning events. It would explicitly take a learning and adaptive approach, with regular reviews.

To drive forwards progress on this, responsibility and **accountability** for ARC's capacity building would be held by one senior individual and it would be supported by the senior leadership team.

The strategic approach would then be reflected in the **country strategy papers**, which need to develop in such a way as to play a key role in understanding the national landscape on DRM in more depth, understanding nuance around the potential political motivations and incentives for ARC/DRF, identifying the appropriate value proposition, and crucially providing practical pointers on how to best embed ARC within different national departments, programmes, and initiatives to ensure its sustainability and institutionalisation. A likely aim is to get DRF/ARC embedded in national development plans, such that a government change would not lead to a change in priorities. One finding was that strong leadership in Madagascar supported an effective TWG, so the right government entry point is critical, requiring the careful selection of the role, location, and job specification of the Programme Supervisor and Government Coordinator.

Operationalising capacity building in each country will be differentiated based on country-specific factors – such as how established the current institutions are to prepare for and respond to drought, national income levels, how drought-prone the country is, whether the country has a decentralised political system, how much humanitarian support is typically received etc. These more specific capacity building strategies at country level could be offered to donors to fund work in particular countries (which is an approach that SDC has taken for Zimbabwe and Zambia).

Lesson learning to support a more timely response: The biggest weakness in relation to delivering a timely response is the detail of implementation – to solve this requires specialist knowledge of both successful humanitarian interventions and government processes. ARC Agency should support countries to better turn OPs into effective responses, and a key part of this is proactive and systematic lesson learning from payout evaluations. This is required at two levels:

- First, an overarching careful review and learning from the 10 published process evaluations is required. This could be done via a workshop with the evaluators, ARC stakeholders (TRC, contingency planning team, Country Engagement Managers), government stakeholders (TWGs, government implementing agencies), and independent humanitarian organisations, to explore in detail where the blocks are and how these can be prevented. This can be developed into guidance for countries and the contingency planning team, as well as incorporated into TRC scoring.

- Second, after each process evaluation, an action plan needs to be developed to ensure that any challenges are addressed in the next OP and FIP.

F.2 More detailed recommendations

More detailed operational planning should sit alongside the overall strategic approach. This would clarify the following:

- How often it would be useful to undertake training of trainers (the latest was delivered several years ago), how to facilitate more peer-to-peer learning and support, and whether it is worth investing in other capacity building approaches – such as secondments, mentoring, and online discussion forums.
- How to more actively leverage the capacity of relevant organisations that are based in country, with a particular focus on ARC Replica partners.
- How to build a stronger link and/or earlier engagement between the TWG and ARC Ltd, to avoid last-minute problems with policy signing and also to aid lesson learning around RTP selection (including understanding the reasons for a non-payout).
- Approaches to try and ensure TWG staff have enough time to do their work. Country Engagement Managers could work with the Government Coordinator to ensure that all TWG staff have their ARC role written into their job specifications, and they could consider incentive schemes, to try to give the ARC role priority. They should also explore if there are any solutions that could reduce staff turnover and manage its implications – if nothing else, develop an agreed process for the induction of new staff.
- A standardised and/or clarified approach concerning the roles and responsibilities for political engagement. Roles should be more clearly defined between the Country Engagement Manager, senior ARC management, Programme Supervisor, Government Coordinator, and technical leads, with some specific benchmarks agreed – for example, the GDG or ARC Ltd CEO visits each country once or year, or after key ministers change.

Scope of ARC's capacity building support: In relation to ARC's objective of providing harmonised resilience solutions and support holistic national risk management strategies, ARC Agency should provide greater clarity on what DRM capacity building it is able to provide (beyond its core capacity building areas), and what it cannot provide, to avoid disappointment or confusion. This could go alongside stronger efforts at coordination, at both continental and national levels, from all organisations working in this space.

Contingency planning process:

- Provide the TRC with previous versions of a country's OP, ARC Replica OPs, and process evaluations, to enable the TRC to provide more nuanced input, and to enable systematic lesson learning.
- There is often a choice to be made about cash or food as the key intervention; ARC should provide and collate more detailed information and learning on this to support informed choices by the TWGs.

Further recommendations for a **timely and effective response**

- **Timely:** ARC should advocate with CH/VAC institutions to see how to align timelines and bring forward (or prevent slippage of) CH/VAC timelines.
- **Effective response:** there is a critical need for stronger M&E at country level. ARC is already addressing this, and donors should actively support this.

ARCAcademy: To make the most of the investment in ARCAcademy:

- ARC staff should champion this system and very actively encourage country staff to engage with it.
- ARC should monitor the success of ARCAcademy modules closely, including which modules appear to support effective learning. It may be helpful to standardise having a quiz/learning check at the end of each module, and for in-person workshops to check understanding levels.
- ARC should review user satisfaction and consider whether some kind of support system would be useful to support learners who are struggling with either the technical nature of the content or the system functionality – such as a discussion forum, peer-to-peer support, or technical support.
- ARC should develop a strategy and continual improvement plan for ARCAcademy and evaluate KPIs on an annual basis.

Knowledge management: There is currently a lack of a central repository for documents, which makes version control a problem and finding key documents difficult – which impacts on ARC's ability to learn. This problem is understood by ARC, and attempts have been made to address this, but this is not yet complete.

In relation to gender:

- Considering the low level of understanding of gender in some countries, it might be useful to have a clearer articulation of specific objectives for country staff, and how the work can start to address attitudes and beliefs, as well as building knowledge, and move country staff along the continuum from awareness to understanding to commitment to action.
- New products and approaches – such as the guidance notes and setting up a sub-group in the TWG on gender, advocacy, and communications – should be carefully monitored, reviewed, and adapted as necessary.
- Gender should be institutionalised within ARC's functions. For example, the gender unit could engage with the TRC chairs in relation to how to consider and score gender in contingency plans, and really strengthen the ability of the TRC to review and support gender-sensitive contingency plans. This could also be the case with the Customisation Committee chair. This would enable and require other ARC staff to ensure that gender objectives were taken forward, rather than this being seen as primarily the gender unit's role.
- If not already done, gender should be written into the job descriptions of all country-facing ARC staff – particularly Country Engagement Managers and technical leads who have detailed engagement with TWGs.

- The ARC gender unit should build partnerships on gender at country level, leveraging the expertise of other partners, such as civil society and United Nations agencies, where gender is already a core principle.

Annex G List of key informants

Name	Organisation/country	Position/role
ADOYIKE GEORGE, Christiana	ARC Agency	Gender Lead
BERTRAM, Veronika	KfW	Portfolio Manager, DRF and Insurance
BOUAFFON, Lucien	Côte d'Ivoire	RTP Lead
CALCUTT, Evie	World Bank Group	Financial Sector Specialist, GRiF
CAMERON, Lloyd	FCDO	Disaster Risk Finance Adviser
CAROLE TIEMOKO, Linda	ARC Agency	Country Engagement Manager – WAF
CHEIKH ABDELLAHI, Moustapha	Mauritania	Government Coordinator
CHEIKH DIONG, Ibrahima	ARC Agency	Director-General
CHIDZERO, Bernard	ARC Agency	Fundraising/Marketing Lead
CHIRUME, Malvern	ARC Ltd	Chief Underwriting Officer
CHITATE, Ange	ARC Ltd	Chief Operations Officer
DIABY, Abou	ARC Agency	M&E Lead
DIALLO, Bintou	Burkina Faso	Programme Policy Officer – ARC Replica and Micro-insurance
ENENKEL, Marcus	World Bank Group	DRF Specialist
EVANS, Sophie	Centre for Disaster Protection	Head of Country Programmes
FARINA, Anna	Start Network	Risk Financing Operational Lead
FRASER, Stuart	Independent consultant	Disaster Risk and Catastrophe Analytics Consultant
GINA, Sithembiso	Southern African Development Community	Senior Programme Officer
HIEN, Sitégne	Burkina Faso	Government Coordinator
J. RUSIKE, Judith	Zimbabwe	Programme Supervisor
JANNEH, Dr Abdoulie	ARC Board	Board Vice Chair
JARIK, Khadija	Global Affairs Canada	Development Project Officer
JARZABKOWSKI, Paula	City, University of London	Professor of Strategic Management
JONES, Emily	WFP	Climate and DRF Adviser
KADOKERA, Doshanie	Malawi	Programme Supervisor
KAI, Gatkouth	AU Commission	Technical Coordinator, DRR
KAKUMA, Eva	ARC Agency	Chief Operations Officer
KAMUDONI, Lusungu	ARC Agency	Contingency Planning Lead
KAYITAKIRE, Francois	ARC Agency	Director of Research and Development
KITA, Loisa	ARC Agency	Co-Chair, TRC
KONIN, Koffi	ARC Agency	Country Engagement Manager

Name	Organisation/country	Position/role
		– ESA
KRAMER, Berber	International Food Policy Research Institute	Senior Research Fellow
LAPAANA, Steven	Zambia	Risk Modelling Lead
MABEHLA, Kennedy	Zimbabwe	Risk Modelling Lead
MAHAMOUD, Ayan	Inter-Governmental Authority on Development	Senior Programme Coordinator
MAONDE, Nelly	Start Network	Country DRF Coordinator, Zimbabwe
MAOULOU, Zeinebou	Mauritania	Programme Supervisor
MASLO, David	ARC Ltd	Head of Business Development
MASUKU, Martha	Zimbabwe	Contingency Planning Lead
MBAGO-BHUNU, Sara	IFAD	Director, East and Southern Africa Division
MOGHALU, Chinedu	ARC Agency	Senior Communications / Advocacy Adviser
MOHAMED, Khadar	Somalia	Government Coordinator
MOLEFE, Retz	Lesotho	Government Coordinator
MORINIERE, Leslie	ARC Agency	Co-Chair, TRC
MUDE, Andrew	AfDB	Development Economist
MUNAYE, Makonnen	WFP	Programme Policy Officer, Climate Change and Resilience
MUTANDA, Nelson	Kenya	Government Coordinator
NARTEY, Cecil	AfDB	Programme Coordinator, ADRiFi
NDLOVU, Lesley	ARC Ltd	Chief Executive Officer
NGORAN, Guillaume	Côte d'Ivoire	Contingency Planning Lead
NICHOLAS, Shelley	ARC Agency	Learning Specialist
NYIRENDA, Lucy	ARC Agency	Country Engagement Manager – ESA
ONZIMA, Benard	ARC Agency	Head of Technical Support Division
PHIRI, Chinsinsi	Malawi	Ministry of Finance
RADWAN, Aden	Djibouti	Government Coordinator
RAMM, Hans	Focal Point Division Latin America and Caribbean	Swiss Agency for Development and Cooperation
RIJNDERS, Frank	ARC Agency	Finance Lead
SANGU, Mathew	Zimbabwe	Government Coordinator
SCOTT, Zoe	Independent consultant	DRF Specialist
SIDIBE, Mamadi	ARC Agency	Country Engagement Manager –WAF
SIKAKUNDA, Evaristo	Zambia	Government Coordinator
SIKAONA, Lenganji	Zambia	Programme Supervisor
SIPANELA, Jorge	Mozambique	Programme Supervisor
STAHLBERG, Kathryn and EVANS, Lara	USAID	Senior Risk Adviser, Bureau for Resilience and Food Security
TRAORE, Issouf	Côte d'Ivoire	Government Coordinator

Name	Organisation/country	Position/role
WOMITSO, Gloria	ARC Ltd	Risk Transfer Lead
ZINYORO, Tafadzwanashe	WFP	Risk Transfer Officer
ZOUMANA DIARRA, Papa	ARC Agency	Contingency Planning Lead
ZYAMBO, Nkumbu	Zambia	Ministry of Finance