



African *Risk Capacity*

Sovereign Disaster Risk Solutions

A Specialized Agency of the African Union

Lessons Learned Summary Report

2014/15 ARC Payouts:
Senegal, Niger, Mauritania

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BACKGROUND

The African Risk Capacity (ARC) was designed to improve the capacity of AU Member States to manage natural disaster risk, adapt to climate change and build resilience across vulnerable populations. To do this, ARC offers tools and services to support risk profiling, risk reduction through contingency planning, early warning and disaster risk financing.

Risk financing, in the form of parametric weather insurance to participating governments, is offered through ARC's African-owned financial affiliate, ARC Insurance Company Limited (ARC Ltd). This financial entity uses *Africa RiskView*, an advanced risk assessment, modelling and early warning software platform, to estimate and trigger readily available funds, via insurance contracts, to African countries hit by severe weather events and which have purchased coverage at a market-based cost.

In ARC's first year of operation, the 2014 Sahel drought triggered payouts to three of the four countries which had purchased insurance: Mauritania, Niger and Senegal. These countries received a total of approximately USD \$26 million to finance response efforts via the provision of pre-planned assistance to affected households.

Following the triggering of the payouts and as part of ARC's monitoring, evaluation and peer-learning processes, the ARC Agency Secretariat commissioned a (i) process and (ii) financial audit of the payouts in all three countries.

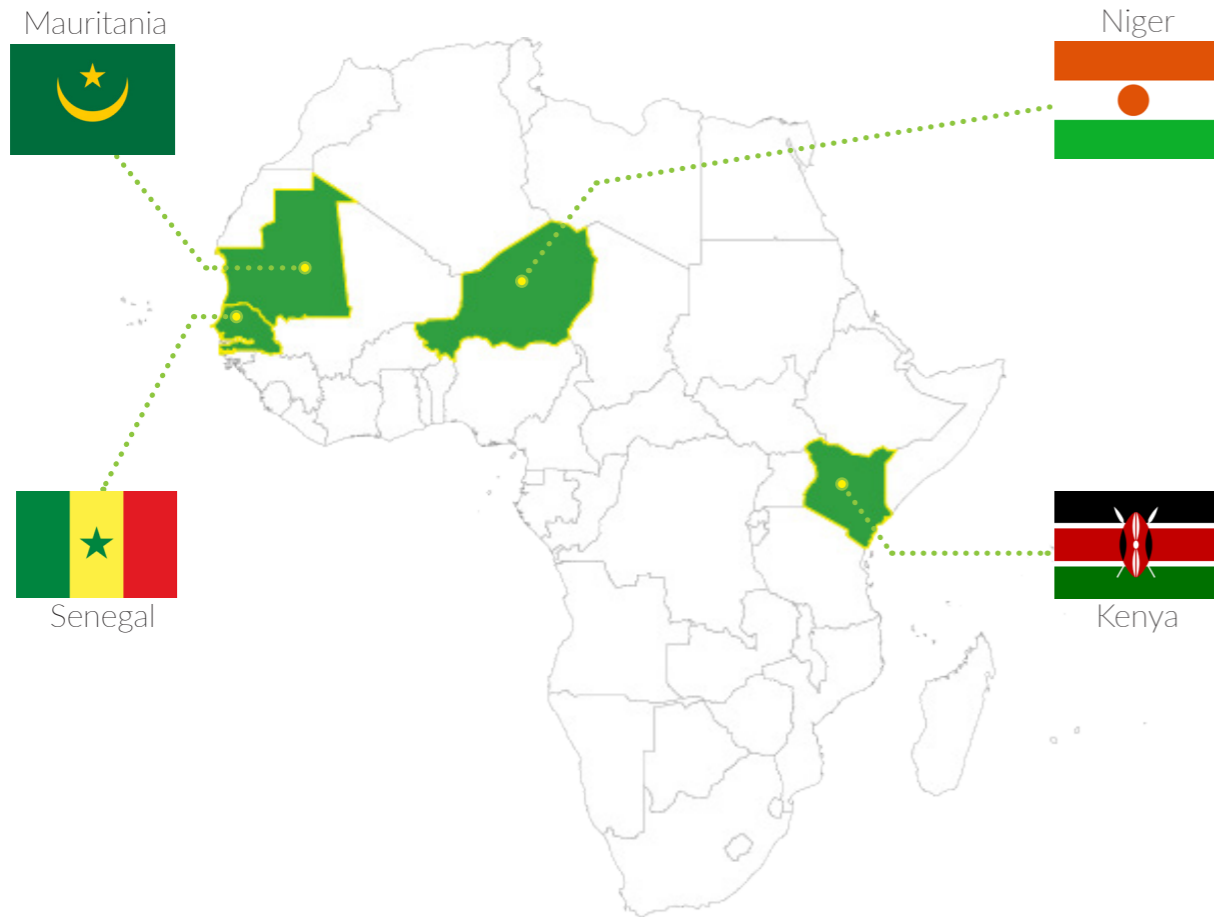
The purpose of these audits, in addition to compliance evaluation, was to provide a deeper understanding of the development impacts of insurance linked to early intervention, with the intention of addressing a number of questions such as:

- » Did early financing from ARC via the insurance payout shorten the time gap between event and response?
- » Does ARC have a greater impact on ensuring food security in the event of a drought than alternative financing mechanisms?
- » To what extent does ARC protect against asset depletion at the household level, thereby building resilience?
- » How was *Africa RiskView* used in the Final Implementation Plan preparation?
- » Did data organisation and availability contribute to preparedness and/or targeting activities?
- » To what extent do Africa RiskView risk quantification and ARC's holistic risk management philosophy change the planning or budgeting practices of par-

This report outlines the activities undertaken by the ARC Agency Secretariat to assist governments in Final Implementation Plan (FIP) preparation and implementation, as well as lessons learned from the audit outcomes.

AFRICAN RISK CAPACITY'S FIRST INSURANCE PORTFOLIO

ARC Risk Pool I:



COUNTRY	PREMIUM	COVERAGE LIMIT	DATES OF SEASON INSURED
Niger	\$3,000,000	\$30,000,000	1 May 2014 - 31 Oct 2014
Senegal	\$3,600,000	\$30,000,000	11 May 2014 - 10 Dec 2014
Mauritania	\$1,400,000	\$9,000,000	1 July 2014 - 20 Nov 2014
Kenya EAR 2*	\$4,500,000	\$30,000,000	1 Aug 2014 - 31 Jan 2015
Kenya EAR 1*	\$4,500,000	\$30,000,000	1 Feb 2015 - 31 Oct 2015

*East Africa Rainfall (EAR) Season - Kenya experiences two agricultural seasons and therefore has two separate insurance policies.



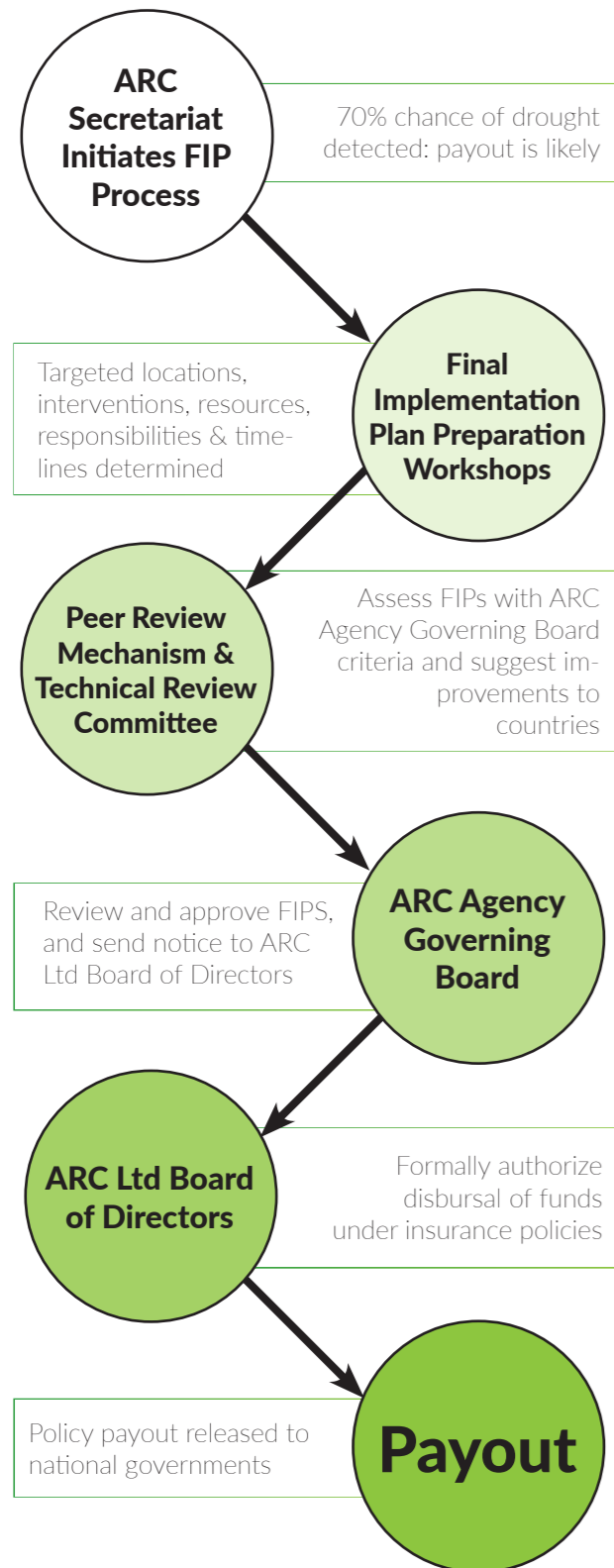
ARC brought Africa's first continental risk pool to market on 1 May 2014, providing \$129 million in drought risk cover to four countries: Kenya, Mauritania, Niger and Senegal. Some of this risk was retained by ARC Ltd¹ with a panel of 12 reinsurers taking on the \$55 million placed on the international weather risk markets.

As the West Africa season progressed, it became clear that the delayed start of the rainy season would have significant effects on the harvest by the end of the calendar year. By late August, *Africa RiskView* indicated a failed planting in many parts of Senegal and a guaranteed minimum payout under its insurance policy from ARC Ltd of USD \$9 million.

If an ARC member country is entitled to an insurance payout under its insurance policy, the Governing Board must approve that country's **Final Implementation Plan (FIP)** before any payout can be made³. With the understanding that there could potentially be other payouts in the region, the Secretariat developed **Standard Operating Procedures (SOPs)** for ARC payouts, which outline the roles and responsibilities of the Governing Board, the Secretariat and the client country in the payout process, from monitoring the weather and food security conditions in country to final auditing and reporting after FIP implementation. These SOPs were coordinated with ARC Ltd's own processes for payout approval and execution.

1. Following incorporation of ARC Ltd in January 2014, KfW German Development Bank approved a EUR 50 million contribution in 'returnable capital' to ARC Ltd for seed capital to be provided over a two-year period, with the first tranche of -EUR 40 million transferred on signature of the Capital Contribution Agreement in March 2014. Further, in March 2014, DFID approved a GBP 100 million allocation to the ARC from the United Kingdom, comprised of GBP 90 million to ARC Ltd in 'returnable capital' to be provided in three equal tranches on an as-needed basis, the first of which was provided on signature of the Capital Contribution Agreement.

FINAL IMPLEMENTATION PLAN PREPARATION & APPROVAL



The ARC Agency Secretariat (the Secretariat) prompted initiation of the FIP preparation process in all countries as soon as it was determined that a payout was “likely” (70% or higher probability based on historical precedent). FIPs are required to outline how the country will reach intended beneficiaries within 120 days of receiving ARC funds, with an operational duration of no longer than 6 months.

FIP preparation workshops were convened to agree, among all stakeholders in the humanitarian response (governmental and non-governmental), on the most affected geographical areas; which livelihood-saving interventions (already approved in the Operations Plans) to prioritise; the division of resources, roles and responsibilities dedicated to each intervention; and the general timeline for procurement, targeting and delivery. Based on *Africa RiskView* and field data on the severity and reach of the drought, the respective governments tailored their FIPs to appropriate uses for the payout to suit their early intervention needs.

In the first week of September 2014, Senegal’s Comité de Pilotage – established in the Office of the Prime Minister for the purposes of coordinating ARC and other inter-ministerial disaster response – convened its FIP preparation workshop with donor and implementation partners. As Senegal’s season only ended in December, it was difficult to identify the exact dollar amount that would be allocated to each activity, but there was general agreement on all other issues.

While this planning conversation would normally take place prior to a drought response, partners and government alike indicated that it would only normally be initiated after the results of the mid-season assessment in late October/early November 2014 and that they were already seeing the time-saving advantages of ARC. Additionally, the government informally distributed the *Africa RiskView* rainfall report as of the first dekad (10-day period) of September, which partners could use to begin mobilising resources.

Senegal’s case was unique in that a guaranteed minimum payout would normally not be evident so early in the season. The Secretariat discussed with the Government the possibility of facilitating an early partial payout from ARC Ltd to undertake a rapid needs assessment and targeting exercise, but the Government indicated that they would be able to secure resources from partners, as they had in the past, for this activity.

It is important to note that ARC Ltd’s insurance policy already facilitates the early release of funds in tranches to address immediate liquidity gaps for critical life-saving activities once the FIP requirements have been met. Such action is possible for both slow and fast onset disasters.

In Mauritania, the FIP workshop was convened by the Food Security Commission in mid-October. Technicians focused on a purely governmental response, with partner activities seen as augmenting the major state-led efforts. *Africa RiskView* outputs were used to identify most affected areas for food distribution to the four districts ultimately included in the ap-

proved FIP.

Niger was very late in paying its premium in the first year due to various political factors and changes in government after having signed its insurance policy. The Secretariat therefore did not initiate FIP planning until the end of season when a payout was certain. Again, in Niger, *Africa RiskView* outputs allowed the government technicians to identify the most affected regions as Niger’s drought was experienced in pockets. Most of the global emergency response was a result of Boko Haram refugees and instability in Mali, exacerbating the effects of the drought and straining the limited resources of the Government of Niger. All three FIPs were finalised and submitted to the Secretariat in the first week of December 2014.

During its fifth meeting held in Abuja, Nigeria on 23 October 2014, the Governing Board decided that in order to be able to fulfill its duties to review and approve the FIPs in a timely manner, should an ARC member country be entitled to an insurance payout, the Governing Board would delegate this authority to the Peer Review Mechanism (PRM).

Accordingly, the PRM convened in Dakar, Senegal on 11 December 2014 to assess the FIPs submitted by the three affected countries and determine whether each FIP met the criteria adopted by the Governing Board. After a high-level review of all three FIPs, the PRM came to the conclusion that all FIPs required significant strengthening from a technical perspective. Niger, Senegal and Mauritania were requested to begin improving their

FIPs immediately based on specific feedback provided. The PRM requested the Secretariat to reconstitute the Technical Review Committee (TRC) to review the FIPs and provide their expert comments on the plans to countries and the PRM as soon as possible. The Secretariat provided feedback on the Plans from both the PRM and the TRC to the three concerned countries and worked with the relevant authorities to improve the Plans.

In January 2015, the Governing Board considered and approved the revised FIPs submitted by the three countries, providing ARC Ltd with written notice of the approval of the FIPs,

thereby allowing ARC Ltd's Board to approve disbursement of the payouts due under the insurance policies.

After receiving the Governing Board's written notice, ARC Ltd's Board of Directors convened on 19th January 2015 and formally authorised the payouts to be made to Niger, Mauritania and Senegal for these countries to provide assistance to vulnerable populations.³ This process of approval by the ARC Ltd Board is purely objective and for contractual process as once the FIP is approved and notice is received of approval, the Ltd Board authorises the payment to be made, as obliged by the insurance contract.

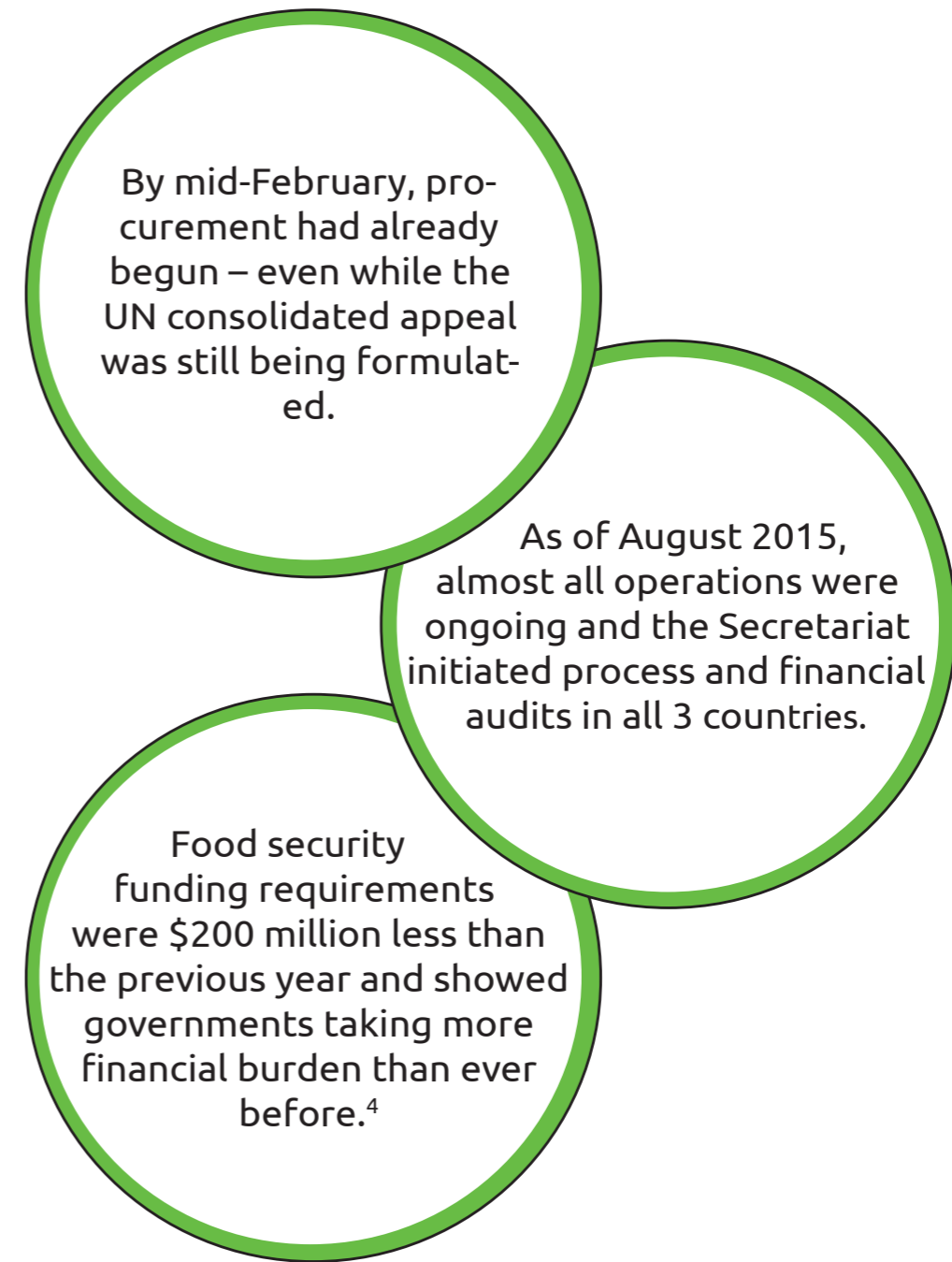
FINAL PAYOUTS, ACTIVITIES UNDERTAKEN AND BENEFICIARIES

COUNTRY	PAYOUT (approx.)	ACTIVITIES	BENEFICIARIES
Senegal	\$16,500,000	1. Targeted food distribution 2. Subsidized sales of livestock fodder	700,000 people 90,000 people (855,000 livestock)
Niger	\$3,500,000	1. Cash for work 2. Targeted food distribution	227,048 people 42,000 people
Mauritania	\$6,300,000	Targeted food distribution	250,000 people
TOTAL	\$26,300,000		1,309,048 people

The differences in the payouts reflect the severity of the drought in each country in terms of population affected and the coverage conditions selected by each country, which in turn dictated the amount of the insurance premium.

3. While ARC Ltd was ready to disburse funds within a week to ten days of the end of season, directly after the calculation report was verified, the governments only submitted FIPs in December and provided bank account information authorised by the Ministers of Finance in January, at which point due diligence on the accounts was completed by ARC Ltd and funds arrived in country accounts on January 27th in Senegal and January 29th in Mauritania. In Niger, the account information came later and funds arrived on February 24th.

4. According to the United Nations Office of Coordination of Humanitarian Affairs (OCHA).



While only in part due to ARC, the mechanism has proven its utility – that responses were triggered much earlier than the traditional humanitarian response – and represents a major step forward for the continent in taking more ownership of disaster risk management and its financing.

THE AUDIT PROCESS

ARC contracted Kimetrica⁵ to develop a set of process audit and spot check tools; conduct the audit, and therefore satisfy ARC's immediate M&E requirement for the 2014/15 payouts; extract lessons from these initial audits that could be used to refine the ARC contingency planning format, standards and guidelines; and finally use the audit experience to review and refine the process audit and spot check tools. These instruments would be used in tandem with the financial audit that would be carried out following a payout.

PROCESS AUDIT⁶ OBJECTIVES

- Test the process audit and spot check data collection instruments and make suggestions for their improvement
- Verify whether ARC Standard Operating Procedures (SOPs) were followed, and if not, why
- Confirm whether interventions carried out with the support of ARC matched the interventions described in the approved Final Implementation Plan (FIP)
- Determine whether the execution of the intervention as outlined in the FIP was efficient and effective
- Gauge beneficiary perceptions of programme delivery and programme outcomes.

By May 2015, Kimetrica had developed a draft manual that would allow firms to conduct a process audit of use of ARC insurance payouts. Because this process audit would be done by a third party in all cases, this manual defined the standard operating procedures that firms should follow to ensure a level of quality and standardisation across countries. The draft manual, including different audit instruments, was provided to the ARC Secretariat in May 2015.

5. Kimetrica is a Monitoring & Evaluation and Disaster Risk Management Consulting firm contracted to complete the ARC process audits for the payouts made by ARC Ltd to Niger, Senegal and Mauritania following the 2014 agricultural season.

6. A process is an independent examination of the efficiency and effectiveness of government undertakings, programmes, or organisations with the aim of leading to improvements. The process audit extends beyond the traditional financial audit and reviews all of the plans and procedures related to a given operation or activity. In the context of ARC, process audits are implemented after a payout to determine whether the overall structure and intent of the FIP and related amendments were followed. The process audit involves carrying out key informant interviews with key staff in the ARC Secretariat and a number of stakeholders involved in designing and delivering ARC financed programmes in country.

Working with this initial draft, the ARC Secretariat and Kimetrica collaborated to finalise the documents for a field test with the three countries that had received payouts earlier in 2015.. Once these instruments were tested in the field, an updated version of these instruments, as well as recommendations on the needed size and scope of the process audit following a payout, were provided by Kimetrica to reflect the experience of actual payout situations.

IN-COUNTRY TESTING & INITIAL PROCESS AUDITS

COUNTRY	DATES OF AUDITS	REGIONS VISITED	INTERVIEWS CARRIED OUT
Mauritania	Mid-July to Mid-August 2015	Gorgol and Brakna	Process audit: 13 Spot checks: 61
Senegal	Mid-August to mid-September 2015	Saint-Louis, Louga, Kaolack and Diourbel	Process audit: 4 Spot checks: 128
Niger	Throughout September 2015	Maradi and Dosso	Process audit: 14 Spot checks: 65

Kimetrica began working in country in July 2015 to carry out the initial process audits. These initial audits consisted of a process audit and spot checks in order to assess compliance with ARC procedures, verify whether the prescribed SOPs in the FIP were followed, and determine the efficiency and effectiveness of the interventions financed by ARC.

These audits also served the purpose of providing guidance on improvements in terms of planning, procedures, and programme implementation, and they intended to test and improve the ongoing design of ARC's process audit methodology and instruments.

LESSONS LEARNED

In this first payout year that the Secretariat was required to support FIP preparation and implementation, challenges arose – some anticipated and some not. Below is a summary of the lessons learned and recommendations for improvements in future years where possible. Some of these lessons learned are directly related to the process audit while other are related to ARC’s contingency planning process itself.

1. Reluctance to declare a drought

Although the rainfall deficits in at least two of the three countries were significant and, by the thresholds set by the countries themselves, in fact defined a drought, there are important political considerations around the use of the word “secheresse” in public settings in many (French-speaking) African countries.

This terminology, in recent history, has been associated with “famine” and government failure to act. This presented challenges to the ARC’s communications programme around the payouts, as they were triggered on “drought insurance” policies.

At the beginning, not declaring a “drought emergency” also limited all governments’ abilities to use their fast-track procurement processes. However, two governments found procedural ways around this and, in one case, the Secretariat wrote a formal letter expressing the importance of meeting the ARC deadlines and thus was sufficient for technicians to make an argument for expedited processes.

2. Consistency with the FIP

The FIP is one of the most important reference documents for the audit. Throughout the audit process it became clear that the quality of the FIP and robustness of the document have implications on the implementation and its monitoring.

The interventions carried out in the three countries with ARC support largely matched the interventions outlined in the FIP. This was specifically evident with regard to geographic coverage, the targeting process, the nature of the intervention (e.g. free food distribution) and implementation modalities. However, there were changes related to the type of commodity distributed, the number of target beneficiaries selected, and the budget. The governments, in all instances, communicated these changes to the ARC Secretariat for approval.

The process audits showed that some amendments to the FIPs should be considered and future FIPs can be improved by:

- Updating the FIP on receipt of the payout into the country to reflect the reality on the ground at the time, permitting a more realistic assessment by audit teams. The process audit recommended that this is something that the ARC Secretariat should request and include in their SOPs. In this case the Technical Review Committee and the ARC Agency Governing Board would not need to approve the revised FIP, but rather the ARC Secretariat could be responsible for the recorded approval and documentation of the updated document;
- Any additional deviations from the implementation plan and processes should be communicated in writing and should obtain a written response from the Secretariat;
- Providing a better description of the early warning information that triggered the payout and any further assessments that informed the choice of interventions outlined in the FIP;
- Including timelines for the completion of each audit criteria in the SOPs, given that this is a key measure of compliance; and
- Including a standard, well-structured logical framework that links with the larger ARC Agency log frame, so that it is clear how the country results fit into the larger framework.



3. Monitoring & Evaluation Process

Monitoring an ongoing operation was very challenging given the time constraints of those involved in implementation and the need for the country to communicate often with ARC Agency. Changes to how ARC approaches monitoring with countries during implementation should be considered, including:

- Developing a structured reporting template once the FIP has been prepared, tailored to the intervention(s) in question to ensure more rigorous and detailed reporting. This information could be collected and the template populated by the Monitoring and Evaluation Officer at the ARC Secretariat on a monthly basis through email exchanges and phone calls with the respective ARC Government;
- Requesting a more detailed interim narrative progress and financial report from Governments, as well as the final completion report and financial statement on completion of programme implementation, to enable higher quality reporting;
- Clearly defining communication, coordination and reporting arrangements among the key actors involved;
- M&E training for key government officials, particularly the ARC Government Coordinator;
- Develop standard reporting templates for supervision missions for which government officials should quality assure all the reports and compile a single summary report.



4. Standard Operating Procedures (SOPs)

Ultimately the process audits are assessing the countries adherence to pre-defined SOPs for the implementation which are in line with ARC's basic eligibility criteria for activities. This requires that specific attention be paid to these SOPs:

- SOPs should be updated and completed to reflect new timelines after the insurance payout has been effected;
- Only SOPs that are relevant to the FIP and country context should be selected from the list of generic ARC SOPs. Additional SOPs related to the country context may need to be included; and
- Appointing someone to follow up on SOP deadlines would increase compliance. The ARC in-country focal point could be in charge of following up on the SOPs, issuing reminders and ensuring that those responsible are aware of their responsibilities and are held accountable.

5. Communication channels

In designing the FIP, communication channels should also be reviewed and clarified. Some countries have multi-layered, heavy structures in place, and informal communication becomes the preferred option, preventing careful documentation and follow up.

When the FIP is prepared, it would be useful to map internal and external communication needs, including timelines and deadlines for follow up or submission of reports. A strategy should map out and specify:

- Which type of information should be communicated to whom and within which timeframe;
- Which entity/level/person reports to whom, including deadlines for communicating information or submitting reports;
- Focal points at each level, in charge of following up on reporting; and
- A Focal Person (ARC GC) responsible for ensuring that the right people receive the right information at the right time.

It would also be useful to have an organogram of key coordination mechanisms implicated in the ARC structure in the different countries along with updated contact lists for each committee. Brief terms of reference should be set out for each committee with the frequency of meetings specified. Minutes of meetings should be carefully recorded and documented.

6. Delay and flow of funds during the process

A review of compliance against the FIPs Standard Operating Procedures revealed that most interventions experienced variations concerning timelines. Significant delays in the implementation of the programme, in particular the food distribution, were observed. This was caused by the retention of ARC funds within the National Treasury (both in Senegal and Niger) and the inability to transfer these funds to government departments responsible for implementation in a timely manner. Even though the ARC transfer arrived early, the blockage of funds within the National Treasury caused delays in some activities' implementations.

The process audit stated that the transfer of funds to the National Treasury is strongly discouraged for future ARC payouts. Alternative options were presented, including:

- Transfer of payout directly to individual accounts of the three main implementing Government structures: CSA, SE/CNSA, and DEPA (in Senegal's case)
- Use of a special account at a private financial institution under the supervision of the Ministry of Economy and Finance (in Senegal's case)
- Transfer the funds in a specific account managed directly by CCA (in Niger's case)

Despite this challenge, most of the ARC 2014/2015 payout funded response activities were still implemented earlier or in line with traditional humanitarian response timelines.

Going forward and in line with the process audit recommendations, any transfer of funds to non-Treasury accounts will still need to undergo all necessary due diligence and authorisation processes accorded within the FIP development process before for ARC Ltd can transfer funds to any account.



7. Diversified food distribution

For future implementations, ARC will encourage the inclusion of additional commodities (e.g. beans, sugar or fish) in addition to rice and oil in the free food distribution to allow dietary diversity.

Food coupons could be explored as an option to facilitate households' acquisition of different foods and mitigate difficulties related to transporting large quantities of rice at a time.

The intervention can be further diversified by including food for work rather than free food distribution. Communities are ready and able to work on small-scale water resource development and conservation projects. Livestock related interventions such as the provision of subsidised livestock feed and health could also be considered where these interventions are not already being provided by government or with insufficient coverage. This could include further linkages between ARC insurance and the scalable elements of existing social safety net programmes.

Such an approach is already in employed in a number of ARC Member States i.e. in Kenya where the ARC policy is structured to feed in to the scalability aspects of the existing Hunger Safety Net Programme (HSNP).

8. Early media engagements in country

Anecdotal evidence suggests that announcements of the imminent payouts during the Secretariat's FIP preparation missions to both Mauritania and Senegal through local broadcast media and radio outlets – especially in local languages – allowed suppliers to prepare to bid during the procurement processes.

In Mauritania, an informal campaign among local journalists was initiated to inform potential beneficiaries that relief would be coming and also to track the FIP implementation in country.

9. Early objective targeting of affected communities through *Africa RiskView*

Although all three countries have their own early warning systems, mid-season assessments, and targeting methods, Africa RiskView confirmed or guided the choice of geographical areas for early intervention, which is often determined by less objective methods.

CONCLUSION

While the flow of funds within country, which will be addressed in future Operations Plans, presented the most significant challenge to FIP implementation, the substantial findings based on the process and financial audits demonstrate that the critical objectives of ARC's timely delivery were met.

In most cases, beneficiaries received ARC relief before or in lieu of any other aid. The insurance provided predictable public finance for disaster response and budget certainty before the failed/poor agricultural season had even ended. This also facilitated an enhanced role of governments in coordinating their response and identifying real bureaucratic and administrative challenges that often impede governments' abilities to act earlier and in more efficient ways.

From the results of the financial audits, the contingency planning process and the associated process audit, the Secretariat has developed a deeper understanding not only of ARC's impact in terms of livelihood-saving activities, but also to inform government decisions surrounding ARC cover in the

