



Donors Committee

Short Procedure

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To: The MIF Representatives

From: The Secretary

Subject: Regional. Nonreimbursable technical-cooperation funding for the “Catastrophic Microinsurance Regional Project”

Basic Information: Executing agency Microinsurance Catastrophe Risk Organization (MiCRO)
Amount up to US\$800,000
or its equivalent in other convertible currencies
Source Multilateral Investment Fund

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Remarks: The Representatives are requested to inform the Secretary, in writing, no later than **12 September 2014** if they wish to interrupt this procedure. If no such communication is received by that date, the attached resolution will be considered adopted by the Donors Committee, and a record to that effect will be made in the minutes of a forthcoming meeting.

PUBLIC

INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

**CENTRAL AMERICA – REGIONAL: NICARAGUA, GUATEMALA,
HONDURAS AND EL SALVADOR**

CATASTROPHIC MICROINSURANCE REGIONAL PROJECT

(RG-M1215 AND RG-T2501)

DONORS MEMORANDUM

This document was prepared by the project team consisting of María Victoria Sáenz (MIF/ATF), project team co-leader; Gladys Morena Gómez, project team co-leader (MIF/CHO); Shoshana Grossman-Crist (MIF/ATF); Xuan-Trang Thi Ho (MIF/KSC); Lorena Mejicanos (MIF/ABS), Carla Bueso (MIF/DEU); and Brian Muraresku (LEG/NSG).

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CATASTROPHIC MICROINSURANCE REGIONAL PROJECT IN CENTRAL AMERICA

(RG-M1215 and RG-T2501)

The project seeks to help improve the Central American financial market through appropriate natural disaster risk management tools designed specifically for the economically vulnerable productive population. By the end of the project, the beneficiary countries are expected to have a favorable environment for implementing innovative financial mechanisms that will help small producers vulnerable to climate change manage their risks in a comprehensive manner. To this end, a comprehensive model will be developed that links the supply and demand for natural disaster microinsurance products with risk reduction strategies, based on strategic partnerships between public and private institutions as well as innovative technological solutions. The project aims to facilitate better management of natural disasters in a population of 50,000 small producers, around 37,500 of whom will have catastrophe insurance.

A comprehensive model will be developed that includes: (i) a joint public and private vision to promote an environment that strengthens the microinsurance industry as a mechanism for managing natural disaster risks; (ii) a platform for private sector use, based on financial and nonfinancial instruments and methodologies tailored to the needs of each country; and (iii) financial advocacy and education on risk management and the use of microinsurance for client protection.

The Microinsurance Catastrophe Risk Organisation SCC (MiCRO), which specializes in promoting innovative insurance solutions to vulnerable productive populations, was created to promote risk management by connecting low-income producers with insurance markets.

Along these lines, Component 1 seeks to promote knowledge about and submit to government agencies certain alternatives currently being developed by the private sector to manage the systemic risks of natural disasters. Forums for dialogue and the coordination of public entities will be promoted. The principal outcomes of this component include the alignment and coordination of public policies with the interests of the private sector in order to develop this industry.

Component 2 will strengthen the insurance value chain by supporting the creation or improvement of institutional and technological innovation conditions in reinsurance and insurance companies as well as insurance aggregators (which include microfinance institutions, credit unions, banks, and insurance brokers), for the intermediation of microinsurance and the natural disaster risk prevention and reduction program. An advocacy and training process is included for the network of microfinance institutions, the banking association, and the federation of cooperatives, which will subsequently disseminate the information with the productive population of each country in the region.

In order to implement this intervention model, Component 3 will build the institutional capacity of MiCRO so that it can expand the natural disaster microinsurance business model in the Central American region, and establish an information system to monitor and manage the outcomes of the microinsurance industry in the region.

In order to capture the knowledge and disseminate the lessons and best practices learned from implementing the model, the project includes Component 4, Knowledge and

Communication Strategy. The key outcomes of this component include helping to close the main knowledge gaps in the insurance sector; the business model and partnership and interagency coordination process required for success; and the availability of the methodology and specific content in order to continue the financial education process supported by the different institutions involved in the insurance value chain.

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Annex II	Budget Summary IDBDOCS-#38871851-Presupuesto WORD
Annex III	Quality for Effectiveness in Development (QED) Matrix IDBDOCS-#38917542-QED Donors Memorandum

APPENDICES

Proposed resolution

**AVAILABLE IN THE DOCUMENTATION SECTION OF THE MIF'S PROJECT
INFORMATION SYSTEM**

Annex IV	Itemized budget IDBDOCS-#38754024-MiCRO Presupuesto
Annex V	Preliminary list of milestones IDBDOCS-#38873653-Hitos MiCRO
Annex VI	Diagnostic needs assessment of the executing agency IDBDOCS- #38900116-DNA MiCRO
Annex VII	Project status reports (PSR), fulfillment of milestones, fiduciary agreements and institutional integrity IDBDOCS-#38589400-ANEXO VII: REQUERIMIENTOS PSR ACUERDOS FIDUCIARIOS MICRO
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Annex IX	Procurement plan IDBDOCS-#38917669-Plan de Adquisiciones
Annex X	Timetable of activities IDBDOCS-#38917732-Cronograma de actividades
Annex XI	Operating Regulations (including terms of reference for contracted personnel)
Annex XII	Risk analysis IDBDOCS-#38781915-MiCRO Risk Analysis
Annex XIII	Country matrix IDBDOCS-#38961583-Country matrix

ABBREVIATIONS

AUS	Partnership Trust Fund for Poverty Reduction in Latin America
ILO	International Labour Organization
MiCRO	MicroInsurance Catastrophe Risk Organisation
MIF	Multilateral Investment Fund
SDC	Swiss Agency for Development and Cooperation

**CENTRAL AMERICA – REGIONAL: NICARAGUA, GUATEMALA, HONDURAS AND
EL SALVADOR
CATASTROPHIC MICROINSURANCE REGIONAL PROJECT
(RG-M1215 and RG-T2501)**

EXECUTIVE SUMMARY

Country and geographic location:	Nicaragua, Guatemala, Honduras, and El Salvador. ¹		
Executing agency:	Microinsurance Catastrophe Risk Organisation (MiCRO).		
Access area:	Access to finance and access to basic services and green loans.		
Agenda:	Microinsurance and climate adaptation.		
Coordination with other donors/Bank operations:	Swiss Agency for Development and Cooperation.		
Direct beneficiaries:	Approximately 50,000 persons trained and at least 37,500 families of low-income farmers have insurance policies; approximately 30% of these households are headed by women.		
Indirect beneficiaries:	Family members of the farmers, i.e., around 150,000 people (average of four members per household).		
Financing:	Technical cooperation: Partnership Trust Fund for Poverty Reduction in Latin America (AUS) (RG-T2501): MIF: Counterpart: Total project budget:		
		US\$ 200,000	3.9%
		US\$ 800,000	15.4%
		US\$4,190,059	80.7%
		US\$5,190,059	100%
Execution and disbursement periods:	Execution period:	30 months	
	Disbursement period:	36 months	

¹ The countries targeted by the project were identified based on a matrix analysis that took into account socioeconomic factors, insurance and microinsurance penetration, agricultural and rural development, and access to financial services. It determined that Costa Rica and Belize would not be included in the project for the time being, since their scores were not high enough. For more information on the matrix and to see the results of this analysis, see Annex XIII [IDBDOCS-#38961583-Country matrix](#).

Special contractual conditions:	Submission of annual work plan for the first year of project execution.
Exception to Bank policy:	None.
Environmental and social impact review:	This operation has been screened and classified in accordance with the requirements of the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703). Given that the impacts and risks are limited, the project is proposed as a category C operation.
Unit responsible for disbursements	Country Office in Honduras.

I. FRAME OF REFERENCE AND ASSESSMENT OF THE PROBLEM ADDRESSED

A. Economic impact of natural disasters in Central America and its connection to the insurance industry

- 1.1 **Agricultural sector.** The agricultural sector is an important driver of development in Central America. According to figures published by the World Bank, the agricultural sector accounts for 11% of GDP in Guatemala and El Salvador, 13% in Honduras, and 20% in Nicaragua. In terms of jobs, the importance of this sector is even more relevant, as it accounts for 21% of total employment in El Salvador, 32% in Guatemala, 49% in Honduras, and 44% in Nicaragua.² However, most of the agricultural jobs in the region are seasonal and low income. According to calculations by the International Labour Organization (ILO) based on household surveys and national surveys on living conditions, the rural employment rate is 64.3% in Guatemala and 57.6% in Nicaragua. Of these jobs, more than half are performed by self-employed agricultural workers and unpaid family members. Around 25% of the individuals with jobs in the primary sector have incomes below minimum wage;³ around 22% did not complete primary school education, and 14% have no education; most of the people employed in this sector are between 30 and 49 years old and the vast majority are men. Jobs are seasonal and low income, reflecting the fact that many manual activities require no formal education. Lastly, the low level of education and formal instruction have a negative impact on knowledge about the consequences of climate change and the tools that could be used to better adapt to it. Guatemala's rural economy employs 66.8% of rural inhabitants, 77% of whom live in poverty.⁴
- 1.2 **Effects of climate change.** In addition to the systemic risks inherent to agriculture (potential changes in market conditions, pests, personal health, etc.), these small productive units face risks stemming from climate change. The well-known phenomena of El Niño and La Niña impact the region with excessive rainfall or drought conditions that lead to losses of productivity and ultimately income. In addition, the region is impacted annually by the hurricane season in the Caribbean, which causes high winds and flooding. Lastly, this region is highly seismic, meaning that earthquakes occur every certain number of years, and most of them have a significant impact on low-income populations.
- 1.3 There is evidence indicating that the intensity and frequency of these weather phenomena will increase more rapidly in the coming years due to climate change.⁵ During the period 1930-2008, there were 248 extreme weather events in Central America, with the most frequent being floods, tropical rains, storms, and

² World Bank Database. Nicaragua data as of 2010; Honduras, 2011; and Guatemala and El Salvador, 2012.

³ ECLAC, 2011.

⁴ IDB Strategy 2012-2016.

⁵ Economics of Climate Change in Latin America and the Caribbean. ECLAC, 2011.

landslides. Floods have increased more than twofold between 1970-1989 and 1990-2009. Since 1970, tropical storms have increased an average of 5% per year. The economic cost of these events has been substantial. For example, Hurricane Mitch accounted for US\$155 million in losses for the agricultural sector in Central America, and Tropical Storm Stan caused more than US\$355 million in losses in the sector. According to the IDB Integrated Strategy for Climate Change Adaptation and Mitigation, and Sustainable and Renewable Energy, between 1970 and 2008, the costs of climate-related natural disasters in the region totaled US\$81.4 billion per year.

- 1.4 This situation exacerbates the poverty trap. When climate changes occur that affect production, the farmer faces the possibility of not being able to repay loans (if he or she has access to credit) and having to sell assets in order to not lose access to credit; the possibility of not generating enough income to support the household; and in the case of export crops and crops for agroindustry, these events could lead to a breach of contract, thereby impeding access to markets. All of this translates into economic losses that impact the stability and quality of life of the low-income working population. In addition, since a good part of the food supply comes from small farms, this situation could have an impact on food security due to reduced production, with a subsequent increase in prices.
- 1.5 **Central American insurance sector.** According to Fitch, the insurance market in Central America is a relatively small but growing market that is in the process of consolidation. However, insurance penetration in the region is low (approximately 2%), which is below the level in Mexico and South America. The penetration of agricultural insurance is even lower: 1.5% in Nicaragua, 1% in Guatemala and El Salvador, and 2% in Honduras.⁶ Furthermore, according to the report “The Landscape of Microinsurance in Latin America and the Caribbean,” there are no unsubsidized agricultural insurance policies in those countries. Existing insurance consists of all-risk policies, which are primarily purchased by large-scale farmers. In other words, to date, there are no agricultural insurance policies specifically designed for low-income individuals in the region.
- 1.6 **Problem to be addressed.** Small farmers are in fact the most vulnerable to natural disasters and the economic problems they represent. As mentioned above, farmers have low levels of education and do not have any guidance, training, or technical assistance to safeguard their crops and assets through risk-reduction strategies and methodologies, which is why educating them about the implementation of these techniques is imperative. The World Food Programme, the Red Cross, and various researchers all agree that for every US\$1 invested in disaster risk reduction, around US\$4⁷ or more could be saved in aid and

⁶ Penetration is even lower if this rate is calculated on the agricultural GDP. In this case, according to the Asociación Latinoamericana para el Desarrollo del Seguro Agropecuario [Latin American Association for the Development of Agricultural Insurance], the penetration rate would be 0.005% in El Salvador, 0.007% in Guatemala, and 0.08% in Honduras and Nicaragua.

⁷ World Food Programme: <http://www.wfp.org-disaster-risk-reduction>.

rehabilitation costs. Added to this is the fact that the low-income population does not have financial instruments designed specifically for this sector of the population, since they are not considered borrowers and do not have access to mechanisms for preventing, reducing, and managing risks, i.e., insurance, which if it existed, would facilitate access to credit.⁸ However, the worst part is that even if these instruments and products did exist, their implementation in the market would be negatively impacted by regulatory problems and the lack of coordination between the agencies responsible for executing financial public policies and policies to promote the agricultural sector. For this reason, the main problem the operation seeks to address is the unfavorable environment for implementing catastrophe agricultural microinsurance policies.

- 1.7 The main causes of these problems can be summarized as follows: (1) **in terms of public policies**, there is not only a lack of coordination between the different entities responsible for formulating public policy on the financial and agricultural sectors, but also a lack of knowledge about the solutions and tools that could be designed and used to better manage the risks faced by the low-income population, which could be easily implemented by and through the private sector; (2) **in terms of the insurance value chain**, there is little knowledge about the socioeconomic characteristics of the low-income population; (3) **in terms of the low-income producers**, there is little understanding about insurance and risk management; and (4) the lack of risk management and prevention tools designed specifically for the low-income population.
- 1.8 To resolve this problem, MiCRO, a (re)insurance company established in Barbados, which develops and implements appropriate risk management solutions for low-income populations, decided to bring its vision to Central America. MiCRO initially set up operations in Haiti in 2010 after the earthquake, using a meso arrangement where Fonkoze, a local nongovernmental organization (NGO), was responsible for purchasing the policy and insuring all of its clients, namely women earning incomes of up to US\$2 a day. MiCRO covered losses determined by a previously defined parameter corresponding to four different tropical storms and hurricanes that occurred between 2011 and 2012, which totaled over US\$5 million in damages. Based on the lessons learned from this experience, MiCRO felt that it was important to expand its penetration to insure low-income producers in Central America. However, because the basis risk not covered by the policy in Haiti was covered by Fonkoze using its own funds (based on an independent decision made by Fonkoze with no involvement whatsoever by MiCRO) and led to a difficult financial situation, in that particular case MiCRO developed a matrix for selecting partners that it could work with that had demonstrated financial soundness and institutional strength. MiCRO will initially work in Nicaragua with clients of the Fondo de Desarrollo Local [Local Development Fund] (FDL)⁹ and INISER (a government insurance company) as

⁸ The Next Global Breadbasket: How Latin America Can Feed the World. IDB. 2014.

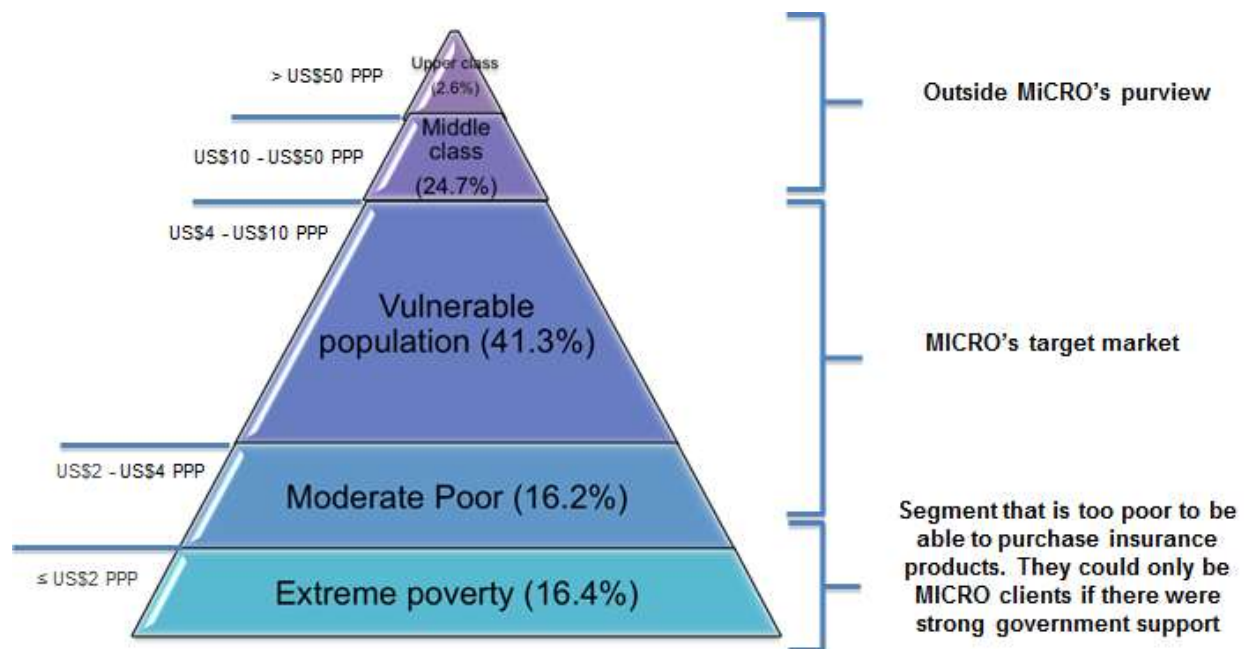
⁹ The largest microfinance institution in Nicaragua and Central America.

well as another insurance company to be determined. In Guatemala, it will work with Banrural and Aseguradora Rural. The specific areas in each country are still in the process of being identified, based on the volume of clients, their specific characteristics, and the rural agricultural activity.

- 1.9 It should be clarified at this point that MiCRO's long-term objective is to become a financial platform, with the participation of local partners (local financial institutions and microfinance companies) and sufficient solvency (capital) to be able to leverage the risks it takes. Initial contributions from the MIF are being used to support the creation of an appropriate business model for a subsequent replication and penetration phase.

B. Project beneficiaries

- 1.10 By the end of the project, the project is expected to generate interest and the involvement of at least three regulatory and public policy-making agencies in the region (one in Nicaragua, one in Guatemala, and at least one more in Honduras and El Salvador); at least four entities in the insurance value chain, including insurance companies and distribution channels or insurance aggregators (two in Nicaragua, two in Guatemala); and have provided risk management training to around 50,000 low-income farmers in Nicaragua, Guatemala, Honduras, and El Salvador, most of whom earn average incomes of between US\$4 and US\$10 per day and live in risk areas. It is expected that at least 30% of these beneficiaries will be women who will directly or indirectly participate in the productive activity. Of the 50,000 individuals who are trained, around 37,500 are expected to have agricultural insurance policies by the end of the project.
- 1.11 The following figure describes the type of clients MiCRO will reach through insurance aggregators:



Source: MiCRO and "Economic Mobility and the Rise of the Latin American Middle Class." World Bank, 2012.

- 1.12 **Project opportunity.** MiCRO is proposing an innovative product. Even though it has only recently been formed, the company has experience in managing natural disaster insurance, has highly qualified human resources, and an appropriate corporate governance structure. It also has strong partnerships, including the reinsurance provider Swiss Re and the support of institutions with proven technical capacity in the design and marketing of prospective climate insurance models, such as CaribRM and Guy Carpenter, respectively. In addition, it has a network of partners of the Swiss Development Corporation for implementing an initial phase that involves the mapping and modeling of agricultural and property risks in Central America. The principal support provided by the MIF will be to help institutionalize MiCRO and its innovative product in Central America.
- 1.13 In addition to the above, a few initiatives should be mentioned that have to do with the focus of the project and in the long term represent the only efforts associated with insurance and risk management for the poor population. These initiatives are the Fondos [Funds] and the CADENA program in Mexico. The "Fondos" are small mutual insurance funds that provide security to their members. As insurance entities, these funds have low levels of risk (approximately 5%) and receive stop-loss reinsurance policies from Agroasemex or private reinsurance companies. The government subsidizes 30% to 60% of the premium. Although these funds primarily insure medium-sized and large products, a few small producers associations are sometimes connected to a fund in order to obtain adequate protection. At the same time, the Department of

Agriculture, Livestock, Rural Development, Fisheries, and Food¹⁰ (SAGARPA) manages the CADENA program (Disaster Risk Program for the Agricultural and Fisheries Sector), which is a macro level insurance program to protect against crop and livestock disasters. This program is specifically designed to provide a social safety net to a large number of low-income and semi-subsistence households that are unable to afford commercial insurance policies. The insurance is purchased by state governments, and offers parametric weather coverage and crop area-yield coverage. The federal government subsidizes 75% to 90% of the premiums, and the difference is paid by the municipal governments. Other projects currently in execution, such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF),¹¹ seek to ensure that the countries purchase catastrophe insurance policies.

C. Contribution to the MIF mandate, access framework, and IDB strategy

- 1.14 This project is consistent with the mission of the MIF. Its results are focused on reducing poverty through tools to manage and prevent the risks that affect the agricultural activities that generate incomes for small farmers in the Central American region. It also contributes to private sector development, not only by providing an environment for catastrophe microinsurance in the region, but also by strengthening the institutions that are part of the insurance value chain. Lastly, it helps link the insurance sector with low-income clients who do not usually have access to these services. Very few organizations and institutions are currently executing catastrophe microinsurance projects in the region.
- 1.15 **Link with the Agendas.** The project is in line with the MIF's microinsurance and climate adaptation agendas, which seek to: (i) increase the number of providers that sustainably offer microinsurance services to meet the needs of low-income populations in Latin America and the Caribbean; and (ii) increase the resilience of small producers in the event of extreme weather events that affect their productivity and continuity. This project will help close knowledge gaps in the microinsurance agenda related to the optimal design and financial viability of index insurance for small producers.
- 1.16 **Collaboration with the IDB group.** Other areas of the Bank are interested in the details of implementing this project and the lessons that could be learned, due to the innovative nature of the subject and its approach. These areas are the Environment, Rural Development Disaster Risk Management Division (INE/RND) and the Capital Markets and Financial Institutions Division (IFD/CMF), which are also coordinating various loans in related subjects in the different countries, such as the loans NI-L1079 and NI-L1080. In all of the countries, the MIF will closely coordinate its activities with the corresponding areas of the Bank. In addition, the project is consistent with the Bank's country

¹⁰ <http://pacc.sagarpa.gob.mx/sac/aspectos/seguero.htm>.

¹¹ Designed under the technical leadership of the World Bank, with the technical assistance of the Japanese government.

strategies and facilitates the implementation of the Bank's integrated strategy for climate change adaptation and mitigation, and sustainable and renewable energy, which stresses working with agriculture and the integration and development of insurance and risk management mechanisms, as well as access to better technology. In terms of the country strategies, in the case of **Nicaragua (2012–2017)**, climate change, reduction of vulnerability, adaptation and mitigation are crosscutting issues. In **Guatemala (2012-2016)**, one of the key points is the issue of rural development by creating opportunities to improve and diversify incomes, which could be impacted by the climate risks that affect rural populations. In the case of **Honduras (2011–2014)**, certain actions were prioritized to address the risks that affect food security. In this regard, the proposed project is complementary since it helps mitigate part of the climate risk.¹² Lastly, with respect to **El Salvador (2010-2014)**, it was determined that private sector windows will help resolve market failures that limit access to financing for micro and small entrepreneurs.

II. PROJECT OBJECTIVES AND COMPONENTS

A. Objectives

- 2.1 In terms of **impact**, the project seeks to help strengthen the microinsurance market in Central America through appropriate natural disaster risk management tools designed for the low-income working population. In terms of **outcomes**, the project seeks to ensure that the beneficiary countries have a favorable environment for implementing innovative financial mechanisms that will help the economically vulnerable population manage their risks in a comprehensive manner. The project plans to begin activities in Nicaragua and Guatemala, which will subsequently be replicated in Honduras and El Salvador.

B. Description of the model/solution/intervention

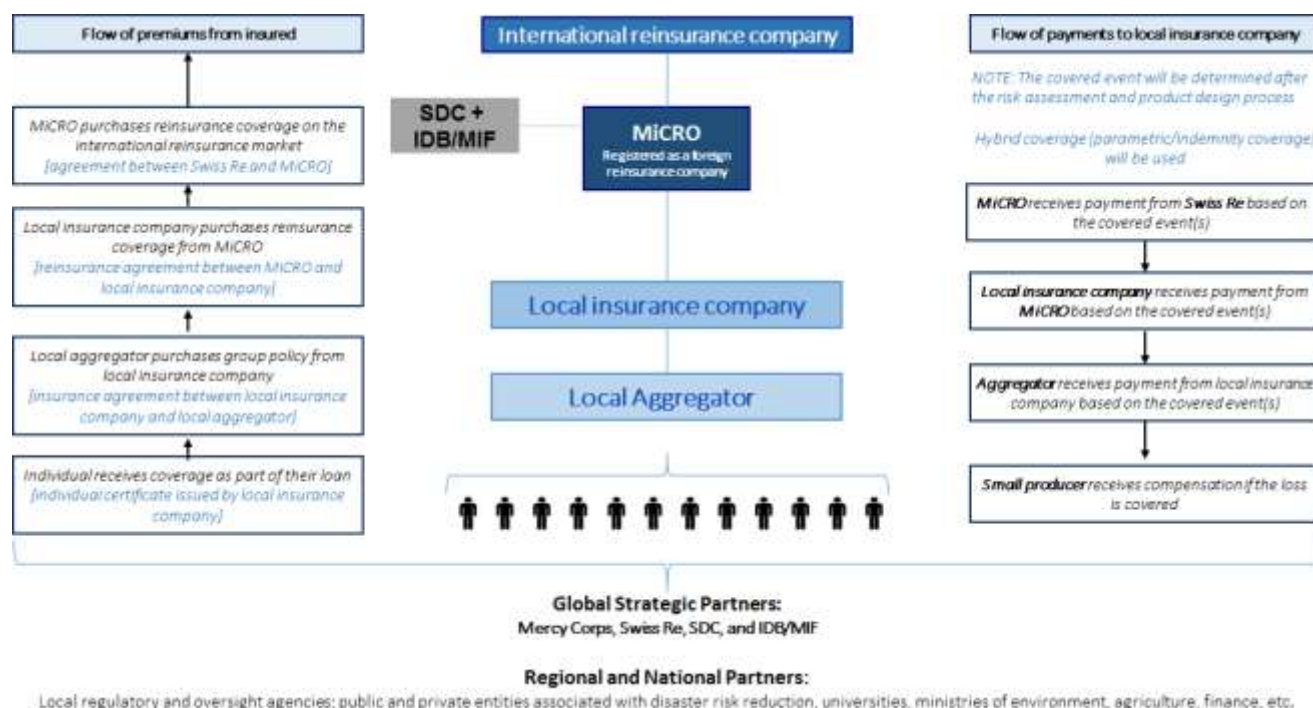
- 2.2 MiCRO's objective is to develop and implement with its local partners microinsurance products that are tailored specifically to the economically vulnerable segments of the population that are the most affected by high exposure to risks associated with natural disasters.
- 2.3 The business model per se will be the “meso”¹³ approach, which means that MiCRO will operate in the market through a local insurance company to which MiCRO will offer reinsurance. The local insurance company will sell group policies to aggregators, which will be responsible for providing insurance certificates to their clients and managing the analysis and payment of claims. The

¹² According to the United Nations, Honduras is one of 20 countries in the world with the greatest vulnerability to natural disasters. IDB Country Strategy.

¹³ The macro level is when the policy is purchased by the government, the meso level is when an intermediary purchases the policy, and the micro level is when the client obtains insurance directly through insurance brokers or agents.

aggregators will be microfinance institutions (MFIs), cooperatives, associations, financial institutions, and NGOs. A figure showing the functions of each stakeholder appears below:

Figure I: MiCRO Business Model



- 2.4 Unlike other experiences in Latin America and the Caribbean (even with MiCRO), which involved or currently involve exploring the advantages of parametric insurance, MiCRO is now focused on developing a product that ensures that the product purchased by the end beneficiary does not contain exposure to the risk that the parametric indexes will not correlate with losses in the field, i.e., that avoid basis risk for small producers.¹⁴ To do this, MiCRO will use a hybrid parametric/indemnity structure that is still being studied by experts on the design of parametric insurance coverage and policies. However, given the lessons learned regarding the low level of understanding and high costs of basis risk, MiCRO's leaders are looking to design a product that combines both types of coverage. In fact, the reinsurance that MiCRO will offer to the microinsurance programs implemented by local insurance companies as well as the reinsurance that MiCRO purchases on international reinsurance markets will be combinations

¹⁴ Parametric insurance is based on an index or parameter that is external, objective, measurable, and managed by a third party having a close correlation with the risk to be covered. When triggered, it entails the immediate payment of the insured amount, regardless of whether or not damages have occurred. Indemnity insurance is insurance that covers the client based on losses in the field determined by insurance adjusters.

- of parametric coverage and indemnity coverage. The basis risk between these two types of coverage will be implicitly retained by MiCRO. In addition, a parametric/indemnity hybrid product will guarantee that the producers have coverage that reflects the losses incurred in the field when they actually happen.
- 2.5 In order for the model to function properly, MiCRO will work in three areas. The first has to do with educating public policy-makers and coordinating efforts among them to guarantee the existence of a favorable regulatory environment, reliable local information, and that decision-makers on matters of financial prudence and agro-meteorological information have the technical ability to support the project and contribute to regional development. The second area refers to training and raising the awareness of the insurance sector in the region. The third and final area involves training and the implementation of risk management and prevention tools and techniques for small producers. The project that is outlined below supports MiCRO with the implementation of the required activities in the three areas mentioned above.

C. Components

- 2.6 **Component I: Strengthening and coordination of public policies (MIF: US\$150,029; AUS: US\$100,000; Counterpart: US\$223,891).** The objective of this component is to provide a favorable environment for the development and implementation of catastrophe microinsurance and the risk reduction and prevention strategy. This favorable environment refers to coordination and information about the project and its scope on the part of the various regulatory or oversight agencies, such as the office of the superintendent of insurance and the ministries or departments of agriculture. Based on the assessment conducted by the MiCRO team, although the countries have sufficient regulatory platforms, they are not necessarily geared to understanding and implementing innovative models aimed at the low-income population that is vulnerable to natural disasters; the assessment also found that in the majority of the countries, there is no coordination between the agencies that report to different branches (such as finance and agriculture). In some cases it also discovered that even within the same area of government there was a lack of coordination, such as for example different agencies that handle information on climate and agricultural productivity but do not share the information that is obtained with all interested parties. To this end, MiCRO, through a team of consultants, will carry out a number of activities, including: (i) assessment of the environment in each country, including an inventory of public policies, instruments, and regulations related to risk management and insurance companies; (ii) an inventory of systems, techniques, and processes used to collect and manage agro-meteorological information; and (iii) preparation of a roadmap for sector and inter-sector coordination and work. These activities will ensure that a favorable environment is created for implementing financial and nonfinancial products to manage climate risks, which are specifically designed for the low-income population vulnerable to natural disasters.

- 2.7 **Component II: Strengthening of the insurance sector value chain (MIF: US\$315,420; AUS: US\$100,000; Counterpart US\$1,824,491).** The objective of this component is to strengthen the insurance sector value chain, giving it the capacity required to actively participate in the risk management strategy for extreme climate events. The entities that make up this value chain must be able to understand and manage the different financial and nonfinancial instruments that MiCRO will make available to them. The following activities will be carried out through a team of consultants: (i) identification of the key stakeholders in the value chain in each country; (ii) implementation of a due diligence methodology and a diagnostic needs assessment of the local partners to determine how they can be strengthened, particularly in the area of risk management; (iii) support of local partners with the mandatory implementation of a risk prevention and reduction program that includes partnerships with international, regional, and national stakeholders, as well as tools for financial education, training, and awareness-raising on risk management and risk transfer for insurance distribution channels so that they can properly address potential natural disasters, as well as for the low-income population that is economically vulnerable to natural disasters, including support and training for distribution channels; (iv) design and implementation of financial education on insurance for aggregators and their clients; (v) creation of a training program for trainers; (vi) design and implementation of operating, financial, technical, and technological processes adapted to the supply and distribution of microinsurance products (i.e., claim management processes, implementation of an appropriate technology platform between the insurance company and aggregator, etc.); and (vii) implementation of a system for collecting and maintaining meteorological data and information on the agricultural sector, which is needed to design financial instruments to manage natural disaster risks.
- 2.8 **Component III: Institutional strengthening of MiCRO (MIF: US\$64,950; Counterpart: US\$103,300).** The objective of this component is to strengthen MiCRO through management tools, assessments, and procedures that will ensure its rapid and effective institutionalization in Central America. The different activities that will be carried out in this area include: (i) development of environmental and social policies that will serve as a reference framework for its operations, based on international best practices; (ii) development of systems to assess and validate demand; (iii) development of strategies for expansion into other countries in the region; (iv) support for the development of microinsurance consumer protection policies; and (v) validation of demand, for subsequent development of the actual insurance products.
- 2.9 **Component IV: Knowledge and communication strategy (MIF: US\$72,500; Counterpart: US\$75,000).** The objective of this component is to capture the knowledge necessary to fill the knowledge gaps in the insurance sector that were identified in the Microinsurance Agenda. Through this component, the MIF seeks to help build capacities, knowledge, and lessons so that other stakeholders can enter the market, and strengthen the insurance sector so that it can continue to

- offer appropriate products for the low-income population. Lessons on the implementation of the financial and nonfinancial strategy on the prevention and reduction of risks stemming from adverse weather events will be documented.
- 2.10 The following audiences have been identified for purposes of dissemination and communication of the knowledge and experiences generated by the project: (i) producers associations and cooperatives; (ii) insurance companies in Latin America and the Caribbean interested in developing agricultural insurance products for the low-income population; (iii) insurance professionals (auditors, actuaries, consultants, risk modeling companies, etc.); (iv) other financial institutions that provide credit to small producers; (v) authorities that regulate the insurance and agricultural sectors; (vi) other financial institutions that provide credit to small producers; and (vii) organizations researching the effects of climate on agricultural production. In general, these institutions have the following knowledge gaps: What is the best compensation amount that will represent a value proposition for low-income farmers, minimize moral hazard, and be financially sustainable for the insurance value chain? What are the best conditions and practices for forming partnerships to provide catastrophe insurance?
- 2.11 With the assistance of expert consultants, the following knowledge products will be developed to meet the knowledge needs of these audiences: (i) one communication strategy for each type of audience; (ii) a project sheet, which will be publicly shared on an annual basis and will contain partial execution results, as well as the principal lessons learned; (iii) an infographic that describes the business model and the partnership and interagency coordination process required to ensure success; (iv) a case study; and (v) the organization of and participation at events to disseminate the lessons learned from the project (FOROMIC 2016 and the International Microinsurance Conference 2017 or other MIF events related to the PROADAPT project). Furthermore, like all projects included in the MIF microinsurance agenda, this project will have access to the knowledge portal of the ILO's Microinsurance Innovation Facility and will create knowledge products in addition to the MIF's, following the methodology transferred by the ILO to the MIF, which will be used to generate "Emerging Approaches" (encapsulated knowledge that is easy to read and assimilate) and Learning Days (annual summary of lessons learned), complementing the MIF tools. To disseminate the knowledge extracted, the documentation will be published on the websites of the project executing agency, the participating financial institutions, the MIF, PROADAPT, MiCRO, and the Microinsurance Innovation Facility.

D. Project governance and execution arrangements

- 2.12 The project will be directed and headed by MiCRO, a (re)insurance company established in Barbados. MiCRO is putting together the technical team needed to manage and implement its programs in Central America. The project team is comprised of a project coordinator, a consultant specialized in the development of inclusive insurance markets, and an expert in legal and regulatory affairs. This

team will report directly to the CEO of MiCRO and through her, to the Board of Directors. The terms of reference for contracting these individuals can be found in the project's Operating Regulations, Annex XI.

E. Sustainability

- 2.13 Based on the lessons learned during the pilot phase in Nicaragua and Guatemala and the knowledge generated during this stage, MiCRO plans to expand into Honduras and El Salvador. The decision to begin with Nicaragua and Guatemala was based on the demand that MiCRO received.
- 2.14 Demand for this climate risk management tool is expected to increase as the use of the risk prevention and management tools yields positive results. However, before the project ends, a sustainability workshop will be conducted with all of the stakeholders involved in order to identify the necessary steps to take to ensure the continuity of the project activities in other countries of the region. This sustainability workshop will analyze not only the demand on the part of financial institutions, but also the financial and technical viability of MiCRO, for purposes of creating the financial platform in which it is hoped that local aggregators and insurance companies (as well as the MIF) will be shareholders.

F. Lessons learned by the MIF and other institutions

- 2.15 There are currently very few index-based catastrophe microinsurance products, and even fewer that have basis risk coverage, so there is very little information and lessons learned regarding similar products. A summary follows of what are considered the most relevant lessons¹⁵ on parametric agricultural insurance and indemnity agricultural insurance products, most of which are in other regions or exist under very different conditions (including government subsidies) from those proposed in this project: (i) index insurance is a new product in the markets and is therefore difficult to understand for all those involved, which necessitates greater dissemination and training at all levels; (ii) the construction of indexes takes a great deal of time to ensure that the result is an actuarially sustainable product, and depends to a large extent on the availability and reliability of meteorological data obtained either directly or through remote sensors, as well as on having access to appropriate technology; (iii) transferring the risk of catastrophe microinsurance to the international market protects the financial solvency of the local partners, particularly during the capacity-building stage; (iv) loss assessment requires a highly trained team and a system that allows prompt payouts; (v) loss assessment processes must remain adaptable to operational demands, without any loss of accuracy; and (vi) a sufficient and timely investment in capacity-building at all levels of the insurance value chain is imperative.

¹⁵ The primary source of these lessons is the ILO's Microinsurance Innovation Facility (www.ilo.org/microinsurance).

G. MIF additionality

- 2.16 **Nonfinancial additionality.** Because of the knowledge resulting from the approval and execution of other MIF projects on microinsurance, as well as the MIF's partnerships with key industry stakeholders, the MIF has the technical capacity to support the design and implementation of microinsurance products in the region. This capacity and the network of partnerships make the MIF an important ally for the execution of projects such as this one. Of particular note is the knowledge gained from the MIF's participation in various knowledge forums and networks, primarily the partnership with the ILO's Microinsurance Innovation Facility aimed at generating and disseminating knowledge in Spanish about the microinsurance market and products. This is highly relevant given the limited amount of knowledge about this subject in the region. No less important is the fact that because the MIF is part of the IDB Group, there is greater coordination with other projects carried out by other areas of the Bank, as well as shared lessons and knowledge. In other words, without the MIF's participation, it would take longer to achieve the expected project outcomes, particularly because having the MIF as a partner is extremely important to being able to attract investment partners for the replication phase.
- 2.17 **Financial additionality.** The project has extensive financing from other donors, such as the Swiss Development Corporation. However, the MIF's financial support is important for positioning MiCRO in Latin America and leveraging the resources of the Swiss Development Corporation. This support is being supplemented by additional funding from the Partnership Trust Fund for Poverty Reduction in Latin America (AUS).

H. Project outcomes

- 2.18 By the conclusion of the project, the targeted countries will have a favorable environment for implementing innovative financial mechanisms that will help the economically vulnerable population to manage their risks in a comprehensive manner. The main expected outcomes are: (i) at least two institutions in Nicaragua and two in Guatemala will be participating in the value chain, offering standard natural disaster risk management strategies (the risk reduction and prevention program) that are appropriate for low-income producers; (ii) at least three regulatory agencies in the region will be carrying out public policy coordination activities, through business roundtables and links with the private insurance sector and its value chain, in order to create an appropriate environment for agricultural microinsurance; and (iii) about 37,500 low-income producers will adopt new risk reduction and prevention techniques and know-how.

I. Project impact

- 2.19 The project seeks to help maintain the income and asset levels of small producers whenever adverse weather conditions occur that affect their crops, as well as the expansion of sustainably managed farmland. By the end of the project, at least

37,500 low-income producers are expected to have improved living conditions (CRF 310401).¹⁶

J. Systemic impact

- 2.20 The project seeks to contribute to indicator 450300 of the Corporate Results Framework through the involvement of at least four private sector institutions (insurance value chain), and at least three government agencies responsible for public policies will implement the practices and knowledge developed by the project. In addition, the MIF and MiCRO will be able to demonstrate that agricultural insurance for low-income producers is feasible and economically viable. This could be measured by analyzing the number of people that will actually use the insurance and the risk prevention and management tools.

III. MONITORING AND EVALUATION STRATEGY

- 3.1 **Monitoring.** The technical cooperation funds will be used to design and implement a project monitoring and control system. A baseline will be established in the first phase of the project. This baseline will include the financial institutions interested in the MiCRO product, as well as the number of their agricultural clients, including their socioeconomic profiles. The monitoring system designed will complement the general monitoring systems developed by MiCRO's management. It will serve as a basis to monitor, from MiCRO's offices, the execution of the training and financial education programs, and will further serve as a policy and indicators to be used by MiCRO to monitor its expansion in Central America.
- 3.2 **Evaluation.** The project will include a midterm and a final evaluation. The objective of these evaluations will be to try to determine the impact of the project activities on the strengthening of the insurance sector and to be able to evaluate whether the efforts to coordinate and link public agencies have led to an improvement of the general environment for microinsurance. In addition, the evaluations will include questions on the relevance, effectiveness, efficiency, and sustainability of the project. For more details, see Annex VIII. Lastly, the executing agency will organize a closing workshop in order to jointly evaluate with other stakeholders the outcomes achieved, identify additional tasks needed to ensure the sustainability of the actions initiated by the project, and identify and disseminate the lessons learned and best practices.

IV. COST AND FINANCING

- 4.1 The project's total cost is US\$5,190,059, of which US\$800,000 (15.4%) will be contributed by the MIF, with US\$200,000 (3.9%) contributed by the AUS, and US\$4,190,059 (80.7%) in counterpart funds. The execution period will be

¹⁶ Corporate Results Framework, indicator 310401.

30 months, and the disbursement period will be 36 months. A total of US\$150,000 will be accepted as the local counterpart, which represents the funds invested since 1 October 2013, primarily for consulting work on the coordination of public agencies and the development of the value chain.¹⁷

Project Components	MIF	AUS	MiCRO	Total
Component 1 Strengthening and coordination of public policies	150,029	100,000	223,891	473,920
Component 2 Strengthening of the insurance sector value chain	315,420	100,000	1,824,491	2,239,911
Component 3 Institutional strengthening of MiCRO	64,950		103,300	168,250
Component 4 Knowledge and communication strategy	72,500		75,000	147,500
Total execution and oversight components	602,899	200,000	2,226,682	3,029,581
Executing agency/Administrative	37,550	0	1,963,377	2,000,927
Midterm and final evaluations	30,000			30,000
Monitoring system	10,000			10,000
Audit	12,000			12,000
Contingencies	53,302			53,302
Subtotal	745,751	200,000	4,190,059	5,135,810
% of financing	18.4%	9.4%	72.2%	100.0%
Impact Evaluation Account (5%)	39,249			39,249
Agenda Account	15,000			15,000
Grand Total	800,000	200,000	4,190,059	5,190,059

- 4.2 MiCRO signed a cooperation agreement with the Swiss Agency for Development and Cooperation (SDC) whereby the Swiss government cofinances this project with nearly US\$6.2 million in funds.¹⁸ These resources are being used for the pilot phase, parameter design, and statistical and prospective testing. They will also be used to fund MiCRO's operations in Nicaragua and Guatemala, and will include its operations in Honduras and El Salvador starting in 2017. It should be pointed out that of this sum, US\$300,000 has been delivered by the Swiss government to the Climate Adaptation Platform (CAP) of the Kreditanstalt für Wiederaufbau

¹⁷ This consulting work was contracted following a very strict procurement process, which began with a public competitive bidding process. Only individuals with nationalities acceptable to the Bank were accepted, and they were contracted for an initial period of eight months, from January to August 2014. It is hoped that these contracts will be renewed using MIF cofinancing funds, since they involve the continuation of work that will guarantee the proper implementation of the project.

¹⁸ These resources are to be used for the initial part or pilot phase of the project in which the MIF is participating, as well as the subsequent replication phase. For this reason the total amount of the counterpart funds contributed to this project is less than the total resources contributed by the Swiss government and Swiss Re.

(KfW), which will use these resources to fund MiCRO Holding or the Core Cell through common shares.¹⁹ Lastly, but no less important is Swiss Re's contribution to the project in the amount of US\$1,163,470, which will be used for technical assistance and the secondment of a high-ranking officer of Swiss Re similar to the CEO of MiCRO.

V. EXECUTING AGENCY

- 5.1 **Executing agency.** Microinsurance Catastrophe Risk Organisation (MiCRO) will be the executing agency for this project and will sign the agreement with the Bank. MiCRO is a (re)insurance company established in 2011 in Barbados by Mercy Corps and Fonkoze and is licensed to conduct tax-free insurance activities. MiCRO's mission is to: "create a world in which the uninsured have access to affordable and appropriate natural disaster risk management tools in order to escape the poverty cycle caused by such disasters."
- 5.2 MiCRO was created to specifically design and deliver innovative insurance solutions to low-income populations, especially microentrepreneurs and small farmers, as well as aggregate programs that offer services and products to the informal sector (for example, microfinance institutions and cooperatives). MiCRO uses an innovative structure and approach to transfer risk by combining the capital efficiency of the international reinsurance market with donor capital to comprehensively meet the insurance coverage needs of people who are economically active but exposed to natural disasters and have no access to risk management tools. It was created as a result of an innovative private initiative launched in 2011 by Fonkoze in Haiti, Mercy Corps (a global NGO engaged in building social capital in poor communities through market solutions), and Swiss Re (a global reinsurance company).
- 5.3 The program they launched with the support of CaribRM (risk management experts in the Caribbean) and the insurance broker GC Micro Risk Solutions (part of the Guy Carpenter reinsurance broker) provided natural disaster insurance for Fonkoze's microcredit portfolio in Haiti. By using this insurance, Fonkoze was able provide "emergency money," pay off the loan, and issue a new loan (with the same terms) for borrowers affected by natural disasters. Due to the initiative's success in raising awareness about the importance of insurance as a way to financially protect the populations most vulnerable to the effects of climate change, the SDC invested donor funds to expand the MiCRO concept to other markets. This includes hiring a full-time manager and a start-up team, as well as establishing a presence in Central America, starting with Nicaragua (which was selected as a result of the demand MiCRO received in this country). Using additional financing, MiCRO's goal is to expand into other parts of Latin America and the Caribbean, where it will lead a commercially viable enterprise specifically

¹⁹ See paragraph 5.4 for a description of the Core Cell.

- focused on the development of catastrophe insurance programs to protect economically vulnerable segments of the population.
- 5.4 MiCRO's structure is comprised of separate cells. The principal cell (or "Core Cell") includes MiCRO common shareholders who are responsible for its governance. MiCRO has the capacity to form additional cells so that they can underwrite risks covered by MiCRO's operating license, while maintaining assets and liabilities that are legally separate from the Core. MiCRO's current structure consists of the Core Cell and a separate cell (Cell A) that was established in 2011 to insure microentrepreneurs in Haiti. It remains to be seen if a cell will be set up in Central America for the execution of this project, or if operations will be carried out by the Core or Holding. In any event, the financing required for the legal operation of either alternative is ensured by the resources donated by the SDC.
- 5.5 **Execution.** MiCRO is in the process of contracting the technical team that will be responsible for implementing the project. This team is comprised of a specialist in microinsurance market issues, an attorney specialized in insurance regulation and oversight, and a project coordinator. The coordinator will be responsible to the Bank for implementing the project. Administrative and financial support for MiCRO is provided by the outside firm Marsh Management Services Limited, incorporated in Barbados. This company is a subsidiary of Marsh & McLennan and is one of the most well-known companies serving as a manager and administrator of captive insurance companies. Marsh has been helping captive insurance firms for more than 40 years and in the process has built important relationships with key service providers, such as actuaries, attorneys, and auditors that ensure the proper functioning of all its clients. The services it provides to MiCRO are in accounting, strategic management, and regulatory compliance, and it also acts as MiCRO's operations secretary. All transactions are recorded and archived at Marsh Management Services. Details on the structure of the executing unit, the terms of reference for the various consultants, and the requirements of the project status reports can be found in the Operating Regulations, Annex XI, in the technical files for this operation.

VI. PROJECT RISKS

- 6.1 The project itself is a tool for managing the external risks that could affect MiCRO's ultimate objective of providing catastrophe agricultural microinsurance to small producers. In addition, during the assessment mission, the MIF's technical team in conjunction the technical team of MiCRO (including Swiss Re and Mercy Corps) conducted an exercise to identify and evaluate the risks that could hinder the implementation of the project and thus the achievement of the stated objectives. The results of this exercise can be found in Annex XII. The principal risks identified were the following:

Risk	Mitigation
Distribution channels may not be able to perform their function as a demand aggregator or have appropriate technology to manage insurance products.	Component 2 of the project includes not only very strict due diligence in selecting the channels with the best qualifications and technical and human capacities, but will also provide risk management tools and will train distribution channel personnel on the correct use of these tools.
Beneficiaries do not understand the product.	Due to the intrinsic difficulty of understanding insurance, MiCRO decided to design an easy-to-understand product with high value for clients. In addition, MiCRO will provide risk prevention and management tools and local trainers will train beneficiaries on how to use and apply them.
Local insurance companies do not have sufficient knowledge about the risk prevention and management needs of low-income producers.	The project includes training and instruction for insurance companies and the insurance value chain.

VII. ENVIRONMENTAL AND SOCIAL IMPACT

- 7.1 This project underwent the pertinent review process established by the ESR, and was subsequently approved and classified as a category “C” operation.

VIII. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 8.1 Results-based disbursements and fiduciary arrangements. The executing agency will agree to comply with the MIF’s standard arrangements related to results-based disbursements, procurement processes, and financial management that are set out in Annex VIII.

IX. ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY

- 9.1 **Access to information.** This document does not contain confidential information relating to one or more of the ten exceptions of the Access to Information Policy and may therefore be disclosed to external Bank audiences.
- 9.2 **Intellectual property.** All knowledge and communication products and other materials produced during the execution of the project will be the intellectual property of the IDB/MIF. However, the executing agency may request authorization to use and distribute those products in view of its promise to make them available to the public and promote the transfer of knowledge to other interested institutions.

Logical Framework
RG-M1215 and RG-T2501 – Catastrophic Microinsurance Regional Project

Narrative Summary	Indicators and Means of Verification				Risks
Impact The Central American financial market is strengthened through natural disaster risk management tools adapted to the low-income population that is vulnerable to natural disasters.	Indicator 1	Baseline	Intermediate value	Target	<ul style="list-style-type: none">End consumers do not trust the insurance industry value chain, nor do they understand the benefits of risk management tools.
	Low-income producers vulnerable to natural disasters have better living conditions (CRF 310401). (They are better able to manage natural disaster risks.)	0	12,500	37,500	
	Formula / Definition	Month 0	Month 24	Month 36	
	Number of policies (individual or group) that are currently active.	Source: Baseline. Aggregator and distribution channel statistics. MiCRO statistics. Report on approval of insurance product by competent authorities.			
Outcome	Indicators and Means of Verification				Risks
Outcome Central America has an environment conducive to the implementation of innovative financial mechanisms that will help the low-income population vulnerable to natural disasters to manage their risks in a comprehensive manner.	Indicator 1	Baseline	Intermediate value	Target	<ul style="list-style-type: none">Participants in the value chain do not perceive the economic benefit of offering risk management tools.Lack of trust and dialogue between the public and private sectors.Regulatory, oversight, and other government agencies do not always have the same priorities.Regulatory and oversight agencies are excessively resistant to change.
	Number of institutions that offer microinsurance and risk prevention tools to low-income producers (CRF 160100).	0	2	4	
	Formula/Definition	Month 0	Month 15	Month 30	
	Number of participants in the insurance value chain that are involved in the project.	Source: Baseline. MICRO statistics. Statistics provided by partners, channels, and competent authorities.			
	Indicator 2	Baseline	Intermediate value	Target	
	Regulatory agencies incentivize participants in the agricultural insurance value chain by providing a regulatory framework conducive to the implementation of agricultural microinsurance (CRF 160100).	0	2	3	
	Formula/Definition	Month 0	Month 24	Month 36	
	Number of participants in the insurance value chain that are involved in the project.	Source: Baseline. MICRO statistics. Statistics provided by partners, channels, and competent authorities.			

Narrative Summary	Indicators and Means of Verification				Risks
COMPONENTS					
COMPONENT 1 Strengthening and coordination of public policies (banking and insurance commission, central bank, oversight agencies, ministries, entities that generate information, social goods)	Indicator 1	Baseline	Intermediate value	Target	<ul style="list-style-type: none">Suspicion and mistrust on the part of national or regional public entities.National and regional public entities have different priorities.Oversight agencies are reluctant to allow new entities to act as distribution channels.
	National or regional public entities are receiving training and support in order to promote and provide an environment for an agricultural insurance market that has risk management tools specifically designed for low-income producers.	0	2	4	
	Formula / Definition	Month 0	Month 18	Month 30	
	Number of public institutions that are attending workshops or are actively involved in the program.	Source: Baseline. MICRO statistics, workshop attendance lists.			
	Indicator 2	Baseline	Intermediate value	Target	
	Number of public and private institutions participating in working meetings.	0	2	5	
	Formula / Definition	Month 0	Month 24	Month 36	
	Number of public institutions and private sector entities in financial and agricultural areas.	Source: Attendance lists, minutes of working meetings, summary of recommendations.			
COMPONENT 2 Strengthening of the insurance sector value chain (NGOs, MFIs, cooperatives, buyers, producers associations, insurance brokers, actuaries, insurance and reinsurance companies)	Indicator 1	Baseline	Intermediate value	Target	<ul style="list-style-type: none">Lack of incentives for members of the value chain.Lack of knowledge about risk prevention and transfer mechanisms designed specifically for low-income producers.
	Insurance and reinsurance companies, distribution channels, or aggregators, (MFIs, cooperatives, etc.) offering the risk reduction and prevention program.		2	5	
	Formula / Definition	Month 0	Month 20	Month 30	
	Number of insurance companies, channels, and other members of the value chain.	Source: Methodology manual, memorandum of understanding with MiCRO, list of participants, baseline.			
	Indicator 2	Baseline	Intermediate value	Target	
	Employees of members of the value chain that have received the training program for trainers.	0	10	50	
	Formula / Definition	Month 0	Month 24	Month 30	
	Number of employees of insurance companies and aggregators that attend training sessions.	Source: Training materials, lists of participants, employee surveys that measure their knowledge of the program; results of examinations testing knowledge of risk prevention tools.			

Narrative Summary	Indicators and Means of Verification				Risks
	Indicator 3	Baseline	Intermediate value	Target	
	Insurance distribution channels, insurance companies that adopt new operating, financial, technical, and technological processes suitable for offering and distributing microinsurance products to low-income producers.	0	2	4	
	Formula / Definition	Month 0	Month 24	Month 36	
	Number of entities.	Source: Memorandum of understanding with MiCRO, consultant’s report, list of participants, baseline.			
COMPONENT 3 Institutional strengthening of MICRO	Indicator 1	Baseline	Intermediate value	Target	
	MiCRO is strengthened through the institutionalization of environmental and consumer protection policies, procedures, guidelines, and internal regulations.	0	3	4	
	Formula / Definition	Month 0	Month 18	Month 30	
	Number of internal procedures manuals including a minimum of the following: collection of data on applicable processes during MiCRO’s expansion in Central America; sustainable development policy (Environmental, Social, and Governance Policy); consumer protection policy and procedures; policy on access to information and confidentiality, etc.	Source: Copy of manuals approved by MiCRO’s board of directors, MiCRO’s quarterly, semiannual, and annual reports. Audits conducted by audit agencies.			
COMPONENT 4 Knowledge and communication strategy	Indicator 1	Baseline	Intermediate value	Target	• Partners’ lack of interest in learning about the project.
	Identified audiences that have access to knowledge products.	0	0	1,000	
	Formula / Definition	Month 0	Month 24	Month 30	
	Number of persons who have had access to published knowledge products (project sheet, case study, infographic, media, and events) and have attended communication and dissemination events.	Source: Copies of products, communication event programs, list of participants, number of document downloads from websites.			

Budget Summary
RG-M1215 and RG-T2501
Catastrophic Microinsurance Regional Project

	CATEGORY	TOTAL	MIF	AUS	Counterpart				TOTAL	%
					MiCRO		Others	TOTAL		
					In Kind	In Cash				
Component 1. Strengthening and coordination of public policies		473,920	150,029	100,000	0	223,891	0	223,891	473,920	9.1%
1	Long-term consultant for comprehensive development of the value chain	329,520	110,029	100,000		119,491		119,491	329,520	
2	Supplementary consulting services	104,400				104,400		104,400	104,400	
3	Interagency coordination of the public sector	40,000	40,000					0	40,000	
Component 2. Strengthening of the insurance sector value chain		2,239,911	315,420	100,000	0	1,689,241	135,250	1,824,491	2,239,911	43.2%
5	Long-term consultant for comprehensive development of the value chain	329,520	110,029	100,000		119,491		119,491	329,520	
2	Supplementary consulting services	554,000	0	0	0	554,000		554,000	554,000	
3	Interagency coordination of the public sector	14,000	14,000					0	14,000	
4	Natural disaster risk reduction (DRR) system	72,000	0				72,000	72,000	72,000	
5	Implementation of the program’s DRR component	977,891	58,891			919,000		919,000	977,891	
6	Financial education for aggregators and clients	292,500	132,500		0	96,750	63,250	160,000	262,500	
Component 3. Institutional strengthening of MiCRO		168,250	64,950		0	67,500	35,800	103,300	168,250	3.2%
1	Validation of demand	89,500	53,700				35,800	35,800	89,500	
2	Consumer protection policies and procedures	22,500				22,500		22,500	22,500	
3	Development of internal procedure and control manuals	11,250	11,250					0	11,250	
4	Adaptation of social and environmental policies to local regulations	11,250				11,250		11,250	11,250	
5	Formulation of M&E policy for MiCRO’s expansion in Central America	33,750				33,750		33,750	33,750	
Component 4. Knowledge and communication strategy		147,500	72,500		0	75,000	0	75,000	147,500	2.8%
1	Creation and maintenance of MiCRO website	60,000	10,000			50,000		50,000	60,000	
2	Development of communication strategy (elevator pitch) for each audience	15,000	15,000					0	15,000	
3	Knowledge dissemination tools	72,500	47,500			25,000	0	25,000	72,500	

CATEGORY		TOTAL	MIF	AUS	Counterpart				TOTAL	%
					MiCRO		Others	TOTAL		
					In Kind	In Cash				
	ADMINISTRATION AND EQUIPMENT	2,000,927	37,550		313,636	1,649,741		1,963,377	2,000,927	38.6%
1	Administration	825,000			313,636	511,364		825,000	825,000	
2	Project coordinator	381,000				381,000		381,000	381,000	
3	Travel	415,227				415,227			415,227	
4	MiCRO – Operating costs	375,000	35,000			340,000		340,000	375,000	7.2%
	Equipment	4,700	2,550		0	2,150	0	2,150	4,700	0.1%
1	2 laptops	3,000	1,500			1,500		1,500	3,000	
2	2 software programs (MS Office)	1,300	650			650		650	1,300	
3	1 printer	400	400					0	400	
	EVALUATIONS AND AUDIT							0		
	Evaluations	52,000	52,000		0	0	0	0	52,000	1.0%
1	Baseline	0	0					0	0	
2	Midterm evaluation	15,000	15,000					0	15,000	
3	Final evaluation	15,000	15,000					0	15,000	
4	Monitoring system	12,000	12,000					0	12,000	
5	Audit	10,000	10,000					0	10,000	
	CONTINGENCIES	53,302	53,302					0	53,302	1.0%
	Contingencies	53,302	53,302					0	53,302	
	TOTAL BEFORE IMPACT EVALUATION ACCOUNT	5,135,810	745,751	200,000	313,636	3,705,373	171,050	4,190,059	5,135,810	99.0%
	% of financing		14.5%	3.9%	6.1%	66.7%	8.8%	81.6%	100%	
	Impact Evaluation Account	39,249	39,249						39,249	
	Total with impact evaluation account	5,175,059	785,000	200,000	313,636	3,705,373	171,050	4,190,059	5,175,059	99.7%
	Agenda resources	15,000	15,000					0	15,000	
	TOTAL	5,190,059	800,000	200,000	313,636	3,705,373	171,050	4,190,059	5,190,059	100%
			15.4%	3.9%	6.0%	66.0%	8.7%	80.7%	100.0%	

QED - (Quality for Effectiveness in Development)

Memo de Donantes

July 08, 2014

SECTION 1: PROJECT SUMMARY

PROJECT NAME: Catastrophic Microinsurance Regional Project	Project Number: RG-M1215
DESIGN TEAM LEADER: MARIA VICTORIA SAENZ-SAMPER	DEU OFFICER: BUESO, CARLA MARIA

SECTION 2: QED DETAILS

1. MIF Strategic Development Objectives Dimension	6.9
Relation to the Agenda's Objectives	
1.1. There is a causal relation between project objective and the agenda's objective.	2
1.2. The project has potential for scalability after execution.	2
Specific benefits for women	
1.3. The project has specific benefits for women.	0
Specific benefits for the environment	
1.4. The project has specific benefits for the environment (GHG reduction, water savings, conservation, biodiversity).	1
Relation to the MIF's Objectives	
Target 1: Private Sector Development	
1.5. Innovation	2
1.6. Creating Markets and Adding Market Players	2
1.7. Entrepreneurship	2
1.8. Building Private Institutional Capacity	2
1.9. Technology & Human Capital	2
1.10. Higher Standards of Corporate Governance	1
1.11. Strengthening Legal and Regulatory Framework	2
1.12. Development of financial institutions and financial markets	2
1.13. Improved access to basic services	1
Target 2: Targeting the poor	
1.14. The project will be implemented in a region with a high incidence of poverty (poverty map resources http://mif.iadb.org/poverty/home) or target beneficiaries from the poor strata	1
2. Additionality Dimension	8.0
2.1. MIF non-financial contribution is critical for developing the project.	2

2.2. MIF financial contribution is critical for developing the project (there is little or no alternative funding)	0
2.3. MIF participation will mobilize counterpart funding that otherwise won't be available.	2
2.4. MIF participation will likely improve project structure by providing technical advice, institutional credibility and/or lessons learned/best practices from other MIF projects	2
2.5. MIF participation will likely strengthen the institution(s) directly involved with the project	2
3. Project Diagnosis Dimension	9.0
Diagnostic of the problem	
3.1. The problem or need that the project attempts to address has been clearly identified in consultation with stakeholders (borrowers, executing agencies, male and female beneficiaries, other interested parties)	2
3.2. The causes of the problem, their interrelationships and magnitudes are clearly identified	2
Proposed Solution	
3.3. The proposed solution is logically connected and related to the magnitude of the problem	2
3.4. Relevant lessons learned from previous similar interventions in this country or other country (PSRs, ASRs, mid-term evaluations, final evaluations or other evaluation document) are taken into consideration	1 There are no lessons so far.
3.5. Evidence is provided as to the effectiveness of the intervention proposed based on experience in other settings, or previous experience in the same setting	1
4. Logical Framework Quality Dimension	8.5
4.1. The desired impact of the project is clearly stated in the logic framework	2
4.2. The result of the project contributes to the achievement of the impact and is clearly stated in the logic framework	2
4.3. The components contribute to the achievement of the results and include the necessary outputs to attain the purpose	2
4.4. A baseline value or a predetermined starting point has been identified for each relevant indicator, as well as intermediate values, target values and sources of data or a plan for collecting them	2
4.5. Indicators are SMART (Specific, Measurable, Achievable, Realistic and Time-Bound)	1 They are smart, but they are very simple. Mostly they refer to number of entities or persons at a given time.
4.6. The source, or means for collecting data (for outcomes, outputs and activities) actually exist, either with the executing agency or in any other external or internal source	1 The sources do not exist at the moment, but will be created during the implementation.
4.7. The risks for the execution of the project and the achievement of the objectives have been identified	2
5. Risks Dimension	10.0
5.1. The experience and the skills of the executing agency have been evaluated	2
5.2. The risks for the execution of the project and the achievement of the objectives have been identified	2
5.3. All risks have identified proper mitigation measures which can be tracked during project implementation	2
5.4. Compliance with IDB environmental/social policies	2

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PROPOSED RESOLUTION MIF/DE-___/14

Regional. Nonreimbursable Technical Cooperation ATN/ME-____-RG y ATN/AS-____-RG
Catastrophic Microinsurance Regional Project

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with Microinsurance Catastrophe Risk Organization (MiCRO), and to take such additional measures as may be pertinent for the execution of the project proposal contained in document MIF/AT-___ with respect to technical cooperation for a catastrophic microinsurance regional project.

2. That up to the amount of US\$800,000 or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the resources of the Multilateral Investment Fund.

3. That the above-mentioned sums is to be provided on a nonreimbursable basis.

(Adopted on __ _____ 2014)