Evaluation Report Title:
Mid-term evaluation of the performance of the operations of MiCRO in Haiti (EDRM: 4830693)

Response to Evaluation Report (overarching narrative)

The evaluation provides a valuable independent assessment on the performance of the DFID programme 'Insurance for Micro Finance in Haiti (FONKOZE).'[1] The programme was initially designed as a pilot that could be expanded for other hazards, sectors and areas of the Caribbean. As the evaluation makes clear, there are a number of important lessons to emerge from the project that should be factored into the development of new programmes that aim to provide a similar outcome both in the Caribbean and elsewhere.

The project has now closed and DFID Caribbean is not currently supporting any further or similar work in this area at present. This was one of several pilot programmes on climate change adaptation that DFID supported from 2011 to 2015. This programme was developed in response to a specific event, the 2010 earthquake in Haiti, and the commitment to allocate 10% of post disaster humanitarian funding towards reducing future risks. Since 2014 DFID has altered its approach to working in the region with a greater focus on specific sectors and the Eastern Caribbean. This has included the scaling up of some pilot work in new programmes, but other areas of work have not been continued and this includes work on micro-insurance. DFID are reviewing the work of the Munich Climate Insurance Initiative[2] that is operating in the region through a livelihood protection policy and loan portfolio cover products to see what lessons emerge from this programme. Further details on the project and its performance can be found on DFID's Development Tracker:
http://devtracker.dfid.gov.uk/projects/GB-1-202172/documents/

The majority of recommendations are not directly applicable as they are based on the assumption of DFID providing further support to the programme. However, the recommendations are valuable lessons for the design of new schemes in the region and other parts of the world. Other recommendations are relevant for partners but are not applicable to DFID at this stage.

This paper reflects the response of DFID Caribbean and does not represent the views, opinions or position of the Caribbean Development Bank, Fonkoze, MiCRO or any of the other partners involved.

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[1] More information is available through DFID's Development Tracker: http://devtracker.dfid.gov.uk/projects/GB-1-202172/

[2] See http://www.climate-insurance.org/front_content.php?idart=3585

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Recommendations	Accepted or Rejected	If "Accepted", Action plan for Implementation or if "Rejected", Reason for Rejection
1.1 Moving forward, any future operations undertaken by MiCRO should feature the inclusion of a signed memorandum of understanding entailing, in detail, the strategic purpose and inherent limitations of (re)insurance enabled through MiCRO, specifically encouraging aggregators to treat this cover as limited within the range of cover provided in the insurance documentation. All aggregators should sign this MoU. While not legally binding, this would ensure proper mutual understanding and allow MiCRO to drive better technical awareness of the benefits and costs of insurance at the aggregator level. At a secondary level, a clause could be inserted in the insurance contract with aggregators that nullifies some or all coverage if the aggregator assumes insurance risk.	N/A	Relevant for partner
1.2 MiCRO and the Fonkoze family should work together to explore divestment options of FKZ and SFF shareholdings in MiCRO SCC. Other potential aggregators are unlikely to have access to liquid capital to be able to make similar investments in Cell A, therefore divestment at both levels is warranted. While the original intent of this investment was indicated as an "alignment incentive," most of the resources enabling SFF's shareholding came from external grants and this requirement is therefore irrelevant. A consultative decision on whether to divest SFF's shareholdings in the at least the core cell should be taken by the end of Q1 2015.	N/A	Relevant for partner
1.3 Complex microinsurance programs like those enabled by MICRO should always define very clear descriptions of the strategic orientation of the program that includes provisions wherein the scheme is not expected to extend coverage beyond what is contractually obliged, regardless of the shareholding structure or other capital sources backing the scheme.	N/A	Valuable lesson for future programming
2.1 It is critical that MiCRO operate within the normal bounds of any insurance company, and not assume risks beyond that for which it is capitalized. As such, ongoing operations in Haiti and operations in other markets must be adequately capitalized before they are brought to scale. Capitalization strategies must not rely on contingent or anticipated commitments by donors, but by cash-in-hand held by MiCRO at the time of launch. This should be a critical go/no-go for any market entry or expansion strategy. By the end of Q1 2015, MiCRO should develop a capitalization strategy for Haiti operations if they are to continue.	N/A	Valuable lesson for future programming
2.2 MiCRO should explore additional investments from other sources, particularly impact investing funds. With a sound business model (see Lesson 7), MiCRO may be able to attract other impact-minded investors beyond the traditional donor community.	N/A	Relevant for partner
2.3 Feasibility studies, including forecasting of capital requirements, should always be undertaken prior to the	N/A	No action required at this stage as the

launch of a new microinsurance scheme. The roll out of products should hinge on a critical path derived from sufficient capital, as specified in the feasibility study. If reasonable, the roll-out can be scaled to available capital, but it should never outpace actual capital contributions in terms of the requirements established in the initial study and piloting.		programme is closed.
3.1 Re-launching a combined parametric/basis risk product in Haiti will require piloting with each of the aggregators engaged, even if the same overall product is offered covering the three risk types previously covered. This is because the distribution and claims management system will either have to be centralized under a separate outsourcing model, or it will have to be designed and tested within the institutional capacities of each new aggregator. Exploring and determining the best model will be part of the new business plan (see Lesson 7), but in all cases at least a full year of piloting is required. Furthermore, the piloting period should not be considered complete until a reasonable number of loss events arising from the most frequent catastrophe covered are endured.	N/A	At this stage DFID has no plans to support a re-launch of the product in Haiti
3.2 Pilot, pilot, pilot. No microinsurance scheme is properly designed until it has been piloted, refined, piloted again and refined again. Because of the nature of insurance, and particularly microinsurance, it is absolutely critical that microinsurers spend substantial amounts of times studying the risks faced by their clients and the correlation of events to loss (in the case of parametric microinsurance) prior to undertaking a complete roll-out of a given product. While it is very tempting to rush to launch a product, particularly in the wake of catastrophes, not piloting can lead to failed products.	N/A	Valuable lesson for future programming
4.1 While it will be expensive, it is recommended that plans for re-launching in Haiti include the provision of short to medium-term technical assistance provided to each of the aggregators engaged. This will not only lead to better understanding of the implementation of parametric microinsurance by the aggregators, but it will also enable MiCRO to have a better upwards flow of information about operational challenges and technical capacity gaps before substantial problems arise. These issues can be mitigated through hands-on coaching by the embedded technical assistant and buffered by efforts from MiCRO themselves. This could be an excellent use of some of the capital allocation provisioned by the CDB to the multi-donor trust fund for MiCRO Haiti operations, as it will be very difficult for MiCRO to fund such a program itself since it is fundamentally non-revenue generating.	N/A	Relevant for partner
4.2 Sound technical expertise is essential at the level of those institutions which are charged with the delivery of insurance to end-clients in microinsurance schemes. The success of such schemes relies on such technical expertise present at all levels, including in the provision of client education to end-beneficiaries. The absence of such expertise can lead to operational practices that are not in line with best practices and may in fact assume unnecessary operational and insurance risk. Furthermore, adequate technical expertise at the level of the aggregator.	N/A	Valuable lesson for future programming
5.1 The appointment of a CEO to oversee MiCRO and report to the Board of Directors is an excellent first step in employing this lesson. However, the first CEO’s brief tenure, and the overall structure of the appointment as a	N/A	Relevant for partner

secondment, inhibits the strategic impact of the position's leadership. It is recommended that the CEO be appointed for more significant terms, and similarly that the CEO be fully empowered to drive the strategy of MiCRO in Haiti and in other jurisdictions.		
6.1 Following the empowerment of the CEO to establish and work towards a strategic vision for MiCRO, the organization should also work with its aggregators in Haiti to build up more methods for data capture. For example, partnering with SFF to map the locations of its over 2,000 credit centres would both SFF and MiCRO better assess the risk faced by SFF's portfolio. This is relevant with or without the basis risk component.	N/A	Relevant for partner
6.2 Establishing enhanced data capture techniques, such as the installation of rain gauges and partnership among the insurers and reinsurers active in Haiti, should be explored by MiCRO as it considers further expansion in the Haitian market, as well as in new markets it enters. At the least, it should work with aggregators to install monitoring systems at branch locations, which can be used as one method to verify the correlation of parametric triggers with risk and loss models.	N/A	Relevant for partner
6.3 Microinsurance, as stated in lesson 3, is fundamentally structured on imperfect information and therefore requires ongoing analysis and refinement. Microinsurance in emerging markets is particularly subject to imperfect or incomplete data sets, and microinsurers and their reinsurers should be prepared to work alongside insureds and other insurers to discover innovative ways to draw together more data. Furthermore, additional or more refined data should be integrated as soon as it can be verified and analyzed into the models used to create products and assess potential losses.	N/A	Relevant for partner
7.1 MiCRO, as a segregated cell company, needs to formulate a coherent and complete business plan. For much of its existence, it has functioned as a virtual company. While this is not uncommon for SCCs in Barbados, the unique nature of MiCRO's mandate requires inspired leadership underpinned by a strong business plan. While the overall objective for the business plan should not be maximizing shareholder profit, the plan and overall business strategy for MiCRO must hinge upon MiCRO SCC functioning as a self-sustaining entity. Success in this regard will attract substantial additional capital from traditional and non-traditional donors. At the least, this business plan must specify: • The target market/aggregators in Haiti • The range of product offerings, based on a best mix of demand from aggregator(s) and internal capacity • The capital required to support this product offering, and capital sourcing strategy to secure additional capital as required • A pricing model that is both competitive and fair • Risk limits on parameters such as risk type/event, aggregator, end-insured income segment, etc. This plan should be put in place ideally by the end of 2014, if not prior to the next renewal of coverage by SFF.	N/A	Relevant for partner

7.2 The CDB, having already approved a substantial grant from the SDF, should continue to withhold disbursement of this grant subject to the delivery of a convincing and comprehensive business plan. However, the terms and conditions of the SDF grant should be made as flexible as possible, provided that the proposed new business plan meet the overall strategic objectives of MiCRO, in order to best facilitate rapid and successful deployment of such a business plan.	N/A	Relevant for partner
7.3 Insurance does not operate well on a concessional basis, and continued reliance on insurance as a panacea for all catastrophic events, both large and small, does not work. Specific limits on risk taken by an insurer or reinsurer, particularly those operating in the microfinance space, need to be based first on the sustainability of the entity as a self-supporting business venture. Development impact is secondary to this, because development impact is unachievable without an insurer that has the business discipline to survive all the risks it underwrites. Inclusion of subsidies to enhance a product's attractiveness or impact is acceptable, as long as those subsidies are not the lynchpin enabling an insurance scheme to be sustainable.	N/A	Valuable lesson for future programming