

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

CONFIDENTIAL FOR INTERNAL USE

BELIZE

**MICROINSURANCE FOR LOW-INCOME PEOPLE IN BELIZE
(BL-M1008)**

DONORS MEMORANDUM

This document was prepared by the project team comprised of: Maria Victoria Sáenz, MIF/ATF team leader, Juan David Reyes, MIF/ATF, Shoshana Grossman-Crist, MIF/ATF, Carla Bueso, DEU/MIF, Karen Fowle, DUE/MIF, Laila Choe, KSC/MIF, Brian Moraresku LEG, Ishmael Quiroz MIF/CBL, Wayne Beecher, MIF/CJA.

PROJECT SUMMARY

MICROINSURANCE FOR LOW-INCOME PEOPLE IN BELIZE

(BL-M1008)

This project is an initiative which embodies the MIF's commitment to fostering the financial inclusion of low-income populations, with a particular focus on alleviating poverty in rural areas through the expansion of adequate and affordable microinsurance solutions.

Belize remains one of the most underinsured countries in the Central American and Caribbean region with only 15% of households insured. The vast majority of the country's population, 42% of whom live below the poverty line, remains highly exposed to the likelihood of financial losses. Given the limited ability to offset these losses, many rural people suffer extreme hardship, loss of assets, and default on their debts when a disaster or unexpected catastrophe occurs. On the supply side, there exists limited capacity by insurance providers to deliver tailor-made microinsurance products to satisfy the needs of this vulnerable segment of society and even less so when related to agribusinesses. In general, all levels of the value chain have insufficient information on the benefits of microinsurance products.

This project addresses the lack of access to insurance coverage and other risk management tools by low-income populations in Belize. The objective of the project is to enable the provision of affordable property insurance coverage to this population, but specifically to those engaged in rural agriculture activities who are members of credit unions. The activities of this intervention will translate into the expected overarching impact of an increase in the outreach and depth of formal insurance for low-income people in Belize as a means of mitigating against the loss of income and economic opportunities in the aftermath of natural disasters and unexpected losses.

The project aims to accomplish its goal through partnering with the Insurance Corporation of Belize for: (i) the design and delivery of a product that is affordable and accessible to rural and low-income people; (ii) awareness building and education via a comprehensive plan for the training of staff and credit officers and training of trainers to deliver financial education to, and ensure consumer protection for, all potential clients. The knowledge acquired through the project will be used to further expand the coverage of formal insurance in Belize. Software design and adaptation as well as a feasibility study on mobile platform use, together with the design and implementation of a monitoring and control system for tracking the project's impact on the beneficiary population will also contribute to the MIF's body of knowledge and expertise.

The project will directly benefit over 10,000 low-income households countrywide whose income is derived primarily from rural and agricultural economic activities. It is expected that at least 30% of the beneficiaries will be female-headed single-parent families, women entrepreneurs, rural farmers, and low-income urban families. The indirect number of beneficiaries is expected to total 40,000 low-income persons.

The project stands out for its partnership with a private insurance company whose principal market is the low-income segment, thus closely aligning the project with MIF's mission of supporting private sector-led development which benefits people living with low levels of income and in poverty. Given Belize's low rate of insurance coverage, this type of partnership is vitally needed.

TABLE OF CONTENTS

I. Background and Justification.....	2
A. Diagnosis of the Problem to be addressed by the Project.....	2
B. Project Beneficiaries	4
C. Contribution to MIF Mandate, Access Framework and IDB Strategy	4
II. Project Description.....	5
A. Objectives	5
B. Description of Model/Solution/Intervention.....	5
C. Components	5
D. Project Governance and Execution Mechanism.....	7
E. Sustainability.....	8
F. Experience and Lessons Learned from MIF or other Institutions	8
G. MIF Additionality	9
H. Project Results	9
I. Project Impact	9
J. Systemic Impact.....	10
III. Monitoring and Evaluation Strategy	10
IV. Cost and Financing	11
V. Executing Agency	11
VI. Project Risks.....	13
VII. Compliance with Milestones and Special Fiduciary Arrangements	14
VIII. Environmental and Social Review	14
IX. Information Disclosure and Intellectual Property	14

ANNEXES

<u>ANNEX I</u>	Logical Framework
<u>ANNEX II</u>	Budget Summary
<u>ANNEX III</u>	Quality for Effectiveness in Development (QED)

APPENDIXES

Draft Resolution

INFORMATION AVAILABLE IN THE TECHNICAL DOCUMENTS SECTION OF MIF PROJECT INFORMATION SYSTEM

<u>ANNEX IV</u>	Detailed Budget
<u>ANNEX V</u>	Preliminary List of Milestones
<u>ANNEX VI</u>	Diagnostic of Needs of the Executing Agency (DNA)
<u>ANNEX VII</u>	Execution Mechanism and Reporting Requirements
<u>ANNEX VIII</u>	Compliance with Milestones, Fiduciary Arrangements and Integrity Due Diligence
<u>ANNEX IX</u>	Procurement and Contracting Plan
<u>ANNEX X</u>	Project Activities Schedule
<u>ANNEX XI</u>	Operating Regulations (includes the TOR of the Project Coordinator)
<u>ANNEX XII</u>	Monitoring and Evaluation Plan
<u>ANNEX XIII</u>	Stakeholders Analysis
<u>ANNEX XIV</u>	Project Risk Analysis

ACRONYMS AND ABBREVIATIONS

AOP	Annual Operating Plan
BCUL	Belize Credit Union League
CDB	Caribbean Development Bank
CUs	Credit Unions
DNA	Diagnostic of Executing Agency Needs
GDP	Gross Domestic Product
IADB	Inter-American Development Bank
ICB	Insurance Corporation of Belize
ILO	International Labour Organisation
MIF	Multilateral Investment Fund
NMS	National Meteorological Service
OR	Operating Regulations
OSI	Office of the Supervisor of Insurance of the Ministry of Finance
PCU	Project Coordination Unit
PPP	Purchasing Power Parity
PPP	Private-Public partnerships
PSR	Project Status Report
PSC	Project Steering Committee
QED	Quality for Effectiveness in Development
RAMOS	Remote Automatic Meteorological Observing Stations
TOR	Terms of Reference

PROJECT INFORMATION

MICRO INSURANCE FOR LOW-INCOME PEOPLE IN BELIZE

BL-M1008

Country and Geographic Location:	Belize		
Executing Agency:	Insurance Corporation of Belize (ICB)		
Access Area:	Access to finance		
Agenda:	Micro insurance		
Coordination with Other Donors/Bank Operations:	There are no other Donors operating in this area in Belize.		
Direct Beneficiaries:	The project will benefit directly 10,000 low-income households. It is expected that at least 30% of the beneficiaries will be female-headed single-parent families, women entrepreneurs, rural farmers, and low-income urban families. ICB and the participating Credit Unions (CUs) are also direct beneficiaries.		
Indirect Beneficiaries:	Considering an average of 4 persons per household, the indirect beneficiaries will be around 40,000 low-income persons. Between 5 and 7 active participating CUs and the Office of sSupervisor of Insurance (OSI) will be indirect beneficiaries as well.		
Financing:	Technical Cooperation:	US\$ 730,000	72%
	TOTAL MIF FUNDING:	US\$ 730,000	72%
	Counterpart:	US\$ 285,150	28%
	Co-financing (if available):		00%
	TOTAL PROJECT BUDGET:	US\$1,015,150	100%
Execution and Disbursement Period:	38 months of execution and 42 months of disbursement.		
Special Contractual Conditions:	Conditions prior to the first disbursement will be: (i) approval by the Board of the Operational Regulations of the Project; and (ii) selection of the project coordinator.		
Environmental and Social Impact Review:	This operation was screened and classified as required by the IDB's safeguard policy (OP-703). Given the limited impacts and risks, the proposed category for the project is C.		
Unit with Disbursement Responsibility:	COF Belize		

I. BACKGROUND AND JUSTIFICATION

A. Diagnosis of the Problem to be addressed by the Project

- 1.1 **General economic background.** Belize's growth has been good, especially when compared to its Central American peers. When the country achieved its independence in 1981, Belize was the second poorest country in the region with almost all of its exports coming from sugar cane, bananas and citrus. However the discovery of the tourism sector and, more recently, of oil, resulted in a significant growth generating a GDP close to those of Costa Rica and Panamá¹. Most recently, global slowdown, natural disasters and a temporary dropdown in the oil prices slowed growth². The last Country Poverty Assessment under the leadership of the Caribbean Development Bank (CDB) classified the population as 14% vulnerable to poverty, 26% poor and 16% indigent³. The poverty line in Belize is BZ\$3,500 per year (US\$1,750, or around US\$5 per day).
- 1.2 Despite the relative liquidity of the banking sector, credit is limited for low-income people, especially for those living in the rural areas and deriving income from agricultural activities. With more than 42% of the population below the poverty line and 14% vulnerable to poverty, and the majority of them living in rural areas, the lack of credit is a challenge for development. The main reason for this low credit penetration is that non-banked persons pose a perceived higher risk. In the rural areas, this situation is exacerbated by the fact that agricultural activities imply high systemic risk, generally related to natural disasters and lately linked to climate change influence. Furthermore, Belize's insurance sector is small and has a low penetration, limiting the extent to which it has historically delivered risk management services and products. However, as a consequence of the initial steps that two insurance companies are taking towards serving the low-income market, the government through the Office of the Supervisor of Insurance (OSI) has become interested in microinsurance and is committed to supporting activities and products oriented to low-income people.
- 1.3 **Problem.** Belize is one of the most underinsured countries in the Central American and Caribbean region (only 15% of households are insured)⁴, meaning that the low-income population has limited or no access to any kind of microinsurance coverage or risk management tools, including those covering natural disasters. This despite the fact that in general, low-income persons are highly exposed to risk given the precarious situation in which they live and work⁵. In Belize's case, this risk is exacerbated by the fact that Belize is a small country situated in the hurricane belt of the Caribbean Sea. Taken together, the low-income population is highly exposed to the likelihood of catastrophic financial losses⁶ causing many rural people to suffer extreme hardship, lose assets, and default on their debts in disaster years. The main causes of this underinsurance are: (i) limited capacity from the supply side as there are no microinsurance products tailor-made to satisfy the

¹ Towards a Sustainable and Efficient State. The Development Agenda of Belize. IDB, 20

² The World Bank

³ The annual indigence line is US\$1,000 and US\$1,700 for poverty

⁴ CARIBCAP I – Demand Assessment for Belize, 2010

⁵ According to the Country Poverty Assessment 2009, 43% of rural households are poor, 30% of households are female headed, and 46% of households have only one earner.

⁶ Predominantly engaged in agriculture-based livelihoods, those hit hardest by natural disasters are the rural poor, single mothers, farmers and coastal inhabitants who have little to no financial means of recovering quickly.

needs of the target population; and (ii) insufficient information on microinsurance products and benefits at all levels of the value chain.

- 1.4 **General characteristics of the agriculture/rural sector.** The agriculture/rural sector is characterized by three main sub-sectors: 1) well-organized and industrialized sector comprised of banana, sugar, citrus and marine products which are generally exported; 2) a small scale sector producing food for local consumption; and, 3) a well-integrated large scale commercial sector (Mennonites)⁷. 24% of the farms have less than 5 acres and 19% of the labor is classified as agricultural. The well-organized sector has formal access to loans and insurance; however, the agricultural, small sector depends on other sources (CUs, self-financing, and informal lenders) for their financial needs. Natural disasters are one of the major challenges of the sector, as agriculture and crop production depend heavily on weather conditions. Almost 45% of the total population living at low elevations is particularly vulnerable to storm surge and coastal flooding. The direct losses to farmers and indirect losses associated with the rural sector from the last 4 events⁸ have totaled US\$198.9 million. “Vulnerable households in Belize, given the structure of the government relief aid that’s available, cannot easily access financially-oriented relief apart from food aid⁹”. These losses and vulnerability is what inhibits the financial sector from giving loans to the sector and even less so if they are low-income and women.
- 1.5 **General characteristics of the insurance sector.** The insurance industry of Belize is composed of insurance companies, an association of insurance underwriters, corporate insurance agents and sub-agents and a broker. In general, with the exception of 2¹⁰ insurance companies that are composites, the insurance companies are either life or non-life; registered with the Office of the Supervisor of Insurance (OSI) are 10 General Insurers (short-term business) and 6 long term insurance companies (life, health and annuities). Other stakeholders are the Insurance Agents, (represent insurance companies); the Corporate Agents (representing foreign companies or financial institutions licensed under the Banks & Financial Institution Act and providing insurance services to their clients); and finally, one broker (represents clients) operating in the market. Belize has very low insurance penetration as measured by the relationship between premiums and GDP. In LAC this penetration is 2.6%, in Africa 3.8% and in Belize .01%. Total premiums as of December 31, 2011 were only BZ\$119.8 million, with 38% coming from property insurance. Looking at microinsurance specifically, in late 2011 a very small microinsurance project was started by ICB with the approval of OSI. As of 2012, another insurance company, Home Protector Insurance Co., was also underwriting microinsurance. However the participation of microinsurance in the total premiums is still very low.
- 1.6 **Credit Unions (CUs) sector.** In Belize there are 14 registered CUs. As is traditional in the Caribbean, these institutions provide loans to nearly 20% of the employed labor force (7.5% of the Belizean population) and have a membership equivalent to one third of the population. The largest CU in the country, Holy Redeemer CU, with 39,000 members (12% of population) is also one of the largest financial institutions in Belize. The deposits held at all the CUs account for around 25% of the total deposits by individuals. While CUs

⁷ FAO.

⁸ Hurricane Dean (2007), Tropical Storm Arthur (2008), Tropical Depression – 16 (2008) and Hurricane Richard (2010)

⁹ Baylor Magazine, Volume 9, Issue 4, 2011

¹⁰ Atlantic Insurance Corporation and Home Protector Insurance Corporation

target all economic sectors and loans fall into three categories – commercial, consumer or personal, and residential-, CUs are commonly called “the poor man’s bank” given the extent to which they cater primarily to working class households¹¹.

- 1.7 The CUs in Belize offer credit-life insurance to their clients¹². Initially they insured their members’ loans and life savings with CUNA Mutual Insurance (www.cunamutual.com), but lately they decided to undertake the risk themselves. The decision was based on a very low claims rate and the belief that they could sustain the risk with their own equity and at the same time receive the premium, which would enhance their liquidity. The OSI rightly decided that the CUs were not insurance-complying companies, and therefore although the CUs continued offering this service, it is now marketed as a “benefit” provided to members at no cost. This loan protection/loan savings program covers between US\$30,000 and US\$20,000 of the loan held by a member in the event of his/her death.

B. Project Beneficiaries

- 1.8 The project will benefit directly 10,000 low-income households in the country who belong to the working poor and whose income comes primarily from rural and agricultural activities. It is expected that at least 30% of the beneficiaries will be women head of households. Considering an average of 4 persons per household¹³, the indirect beneficiaries will be around 40,000 low-income persons. Specific criteria for ensuring that the project reaches a mostly low-income population will be defined before the disbursement process and will be an integral part of the Operational Regulations.

C. Contribution to MIF Mandate, Access Framework and IDB Strategy

- 1.9 This project is aligned with MIF’s mission: “support private sector-led development benefitting the poor - their businesses, their farms, and their households. The purpose is to give low-income populations the tools to boost their incomes: access to markets and the skills to compete”. The project attempts to stimulate private sector participation in the microinsurance market and aims to benefit people living with low levels of income and in poverty.
- 1.10 **Link to the Agenda.** The project is also aligned with MIF’s microinsurance agenda, which seeks to increase the number of service providers that offer microinsurance services in a sustainable way to meet the needs of low-income populations in Latin America and the Caribbean. The project will feed into the following agenda results indicators: (i) 40 industry services providers (insurance companies and distribution channels) have successfully implemented microinsurance products and services; (ii) 700,000 persons have access to microinsurance; and (iii) generation of aggregated information about the sector, country and product-wise: growth, new players in the market, loss ratios, estimated profitability, and lessons learned to be disseminated in the LAC region.
- 1.11 **Complementarity with the Bank.** The project is consistent with IDB’s country strategy with Belize (2008-2012)¹⁴, which makes access to credit, improvement of human resource development and social protection some of the key areas of work for the Bank. Indeed,

¹¹ 35% of these beneficiaries are members of 7 Credit Unions introducing microfinance and other financial services that target the poor; the CU’s being indirect beneficiaries. It is expected that up to 10,000 persons will buy and renew their policies on an annual basis with the numbers projected to grow consistently at 5% each year.

¹² This is not a mandatory insurance

¹³ Statistical Institute of Belize

¹⁴ The project is expected to be aligned with the Bank’s Country Strategy for Belize (2012-2017) currently under preparation. Also, it received eligibility from the Government of Belize through communication IDBDOCS No. 37958046 dated July 20th 2013

developing the first microinsurance property product in Belize will enable low-income people to cope with risk and thus, have access to credit under better conditions. In addition, the project complements the operation BL-S1001, a Social Entrepreneurship Program (PES) with La Inmaculada Credit Union (LICU), one of the credit unions participating in this project. That project was approved in December 2012 and aims to increase the access to credit of small and micro-entrepreneurs in rural areas. The lessons learned from this project will be very useful for the Bank in determining a wider approach to financial inclusion and the insurance sector in Belize. The project is also complementary to BL-T1015 “Support for the Preparation of an Integrated Disaster Risk Management” which focused on improved disaster mitigation, preparedness and response in the agriculture sector, including exploring options for the adoption of financial risk mitigation tools.

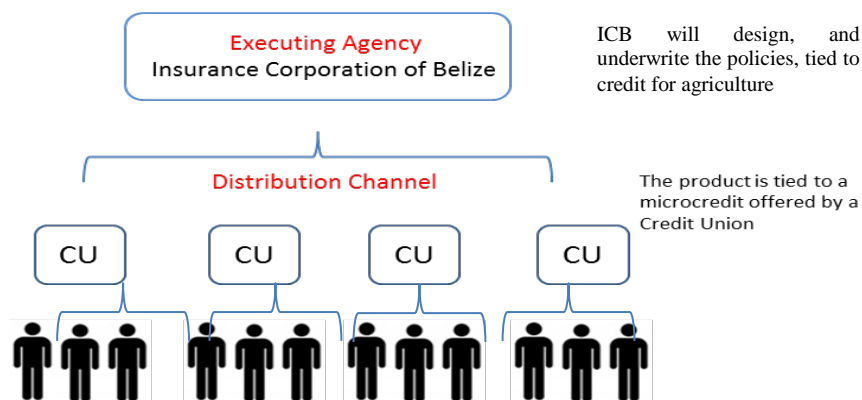
II. PROJECT DESCRIPTION

A. Objectives

- 2.1 The IMPACT of the project is to increase formal insurance coverage for low-income people in Belize, in order to smooth consumption and maintain income levels in the event of a natural catastrophe that affects the crops, houses and properties of the participant CU members. The expected RESULT or objective of the project is to provide affordable property/agricultural insurance coverage to the low-income population in Belize, specifically to those rural agricultural members of the CUs.

B. Description of Model/Solution/Intervention

- 2.2 The intervention model is the “partner-agent” model, in which a “partner” (insurance corporation) develops a partnership with an “agent” or distribution channel in order to sell microinsurance. The channel in this case are the CUs and the beneficiaries are the CU members who are low-income and working in rural areas.



C. Components

- 2.3 The project is organized in three components, each of which will address one or more of the causes of the problem. The problem tree analysis implies that the solution must meet the following requirements: (i) in terms of the product: (a) the design and delivery must be affordable and accessible to rural and poor people, (b) the financial outcome must compensate for catastrophic income losses in such a way that protects consumption and debt repayment capacity, (c) the product must be practical to implement given the limited kinds of data available, and at the same time, include a system that avoids moral hazard and adverse selection, which are the problems that have negatively affected the

conventional agriculture insurance schemes¹⁵; and, (ii) in terms of awareness and education include: (a) a comprehensive plan for the training of staff and credit officers in order to build delivery channel capacity; and, (b) an intensive Training of Trainers program in order to train and deliver financial education to, and ensure consumer protection of, all potential clients.

Component I: Microinsurance Product designed and commercialized (MIF: US\$162,750); Counterpart: US\$14,250).

- 2.4 The objective of this component is to develop and commercialize a property microinsurance product covering the risks of severe income losses due to natural disasters. This product will be a parametric insurance-type product, which will trigger payments by parameters to be defined by a team of experts during the design phase. The payment will be a fixed amount corresponding to “business interruption” due to natural hazards. In general, the product must be easy to underwrite, carry enough risk to make it valuable to customers and enable the pilot to demonstrate financial viability. A team of consultants, working in close collaboration with Insurance Corporation of Belize (ICB) management and with the executing unit (see Annex VIII), will be in charge of implementing the component activities. The main activities are: (i) market validation through surveys, in-depth interviews, and focus groups; (ii) baseline study; (iii) analysis and evaluation of the Credit Unions’ portfolios and IT situation and requirements; (iv) analysis, selection, and contracting of consulting services for the adaptation of insurance products to the characteristics of poor and low-income persons taking into consideration the gender gap and women’s insurance needs, economic activities of both genders, natural hazard risks and probability of occurrence. The team of consultants must deliver the technical, financial and actuarial notes, as well as the legal documentation required by the Office of the Supervisor of Insurance (OSI); (v) study of the feasibility of using a mobile platform for product sales; and (vi) lastly, contracting of consultants for the design and implementation of a monitoring and control system. This system will be used to track the development of the project and the potential benefits of the insurance in the beneficiary population. It will contain economic, social, and financial information regarding both the insurance corporation ICB and the beneficiaries. In ICB’s case, the system will contain the most important key performance indicators for microinsurance¹⁶; regarding clients, it will monitor their cash flow and needs.

Component II: Training and Financial Education, implemented (MIF US\$265,850; Counterpart US\$ 102,950).

- 2.5 The objective of this component is to adapt and develop a financial education methodology to include appropriate methods, tools, and materials for property insurance. During the analysis mission the team organized one focus group with the intention of measuring the level of knowledge and acceptance of insurance among clients of CUs; the results point to the need these persons have for general knowledge on insurance and risk management. Additionally, the general perception held by both delivery channels and the insurance

¹⁵ Hazell, OpCit

¹⁶ Key Social and Economic Performance Indicators. Microinsurance Network.

http://www.microinsurancenetowrk.org/publication/fichier/Social_performance_indicators_for_microinsurance_worksh_op_report.pdf

sector is that there is a generalized need in Belize for improving financial education. It is expected, thus, that such education will result in a positive difference in product acceptance, purchase and use. This will be also measured through the monitoring and control system.

- 2.6 The activities will be: (i) reviewing and adapting the methodology, tools, and training materials; (ii) designing and implementing a training program for the staff of ICB and the personnel of the distribution channels, mainly the CUs, on general and technical characteristics of the property insurance product as well as consumer protection, (iii) designing a training program for trainers; and, (iv) designing and implementing a thorough training and financial literacy program for beneficiaries.

Component III. Knowledge developed and strategic communications implemented (MIF US\$31,950; Counterpart US\$ 250).

- 2.7 The objective of this component is to publicize project achievements, operating mechanisms, and technical underpinnings, while preserving the confidentiality of actuarial calculations and analyses. This component is designed with the expectation of contributing to the knowledge questions and issues around microinsurance in the region. In particular, knowledge tools will be focused on determining whether or not an index-based insurance product is appropriate to offset and/or correctly layer the risks of poor and low-income people from the rural areas of Belize. These tools and the partial results of the monitoring and control system will help ICB and IDB to promote and disseminate information on microinsurance in the region, in order to contribute to strengthening of the market by developing competition. The tools that will be used are short technical notes, a project sheet, and a case study, which could be the first case study dealing with this type of microinsurance in the region. The project evaluations will serve to provide invaluable information as will the ILO's knowledge tools used by this agenda, which are the learning diaries and learning journals.
- 2.8 The activities of this component are the following: (i) designing and implementing periodic knowledge events with media, policy makers and academia; (ii) and the organization and/or participation in different events where the knowledge acquired and the lessons learnt by ICB can be shared. The principal means to disseminate the knowledge created will be: (i) the ICB website; (ii) the MIF website; (iii) MIF project links to the ILO Knowledge Centre of the Microinsurance Innovation Facility; (iv) the Microinsurance Network (www.microinsurancenet.org); and (v) the networks of the credit unions participating in the Project. All these sites will have links to progress reports, summaries of lessons learned, client interviews, links to similar initiatives, studies of the intervention, etc. Annex XIII contains a map of the most important stakeholders and the relationships that ICB will maintain with each one. The general audiences for microinsurance knowledge products are: (i) other insurance companies; (ii) international donors; (iii) regulators; (iv) financial institutions including MFIs and NGOs; (v) and in general the full value chain involved in the microinsurance industry.

D. Project Governance and Execution Mechanism¹⁷

- 2.9 The Insurance Corporation of Belize (ICB) will lead the implementation of the project. To this end, ICB will establish an Executing Unit (EU) and a Project Steering Committee

¹⁷ For more information see Chapter 5 of this document and Annex VII from the technical files.

(PSC) that will be led by ICB's CEO directly, in which other key stakeholders will participate, such as the CUs participating in the project, the BCUL and the National Meteorological Service (NMS) of Belize. It is extremely important to have the NMS as part of the project PSC. Since 1978 and under agreement between the British government, the USA, and Belize's governments, the NMS has a telecommunication system linking it with the National Hurricane Center in Miami, Florida. Under the same agreement, Remote Automatic Meteorological Observing Stations (RAMOS) were installed on remote islands 50 miles east and 100 miles south of Belize City. These stations provided air and sea temperature, wind, wave height, as well as other meteorological parameters. The EU will be led by ICB's Deputy CEO and by the Financial Controller. ICB will hire a Project Coordinator (PC), who will be responsible for the overall implementation and execution of the project, under the supervision of the head of the EC. The main functions of the PC and EC are assisting ICB with the implementation of project activities inside their own organization and within the CUs; and in general assisting in coordinating the gathering of information and analyzing partial results. For more details on the Project Steering Committee and the Executing Unit, see Annex XI, Operating Regulations.

E. Sustainability

- 2.10 The project's sustainability is defined by the following parameters: (i) the project is based on a partner-agent model that has proved successful in the implementation of microinsurance projects worldwide; the partner being ICB, a sound insurance institution, with financial and technical capability as well as experience, and the agents being the strong CUs, described previously; (ii) the project is designed mostly as a pilot project in order to prove the product and enhance it according to real client needs; (iii) the regulatory agency –OSI– is interested in the project outcome and in fact, the project includes a regulatory study that will help them define statutory solvency requirements for microinsurance; (iv) the participation of the MNS provide vital weather information. More importantly is the fact that more than third of Belize's population are CUs' members, that they are working poor living in rural areas subject to natural hazards: and (v) the design of this particular insurance product is aligned to ICB's strategy and mission.

F. Experience and Lessons Learned from MIF or other Institutions

- 2.11 For the MIF this will be the first project in this area. However, through the MIF's participation in the Micro insurance Network and the knowledge agreement with the ILO's Microinsurance Innovation Facility we can extract lessons from related projects¹⁸. Worth mentioning are the cases of coastal insurance in Colombia with MAPFRE and Fundación de la Mujer; calamity due to monsoons and typhoons in Mindanao and Panay, Philippines with the MFI Taytay sa Kauswagan Incorporated (TSKI) and MicroEnsure; "Obra Pa" the microinsurance product developed by Star Assurance, MicroEnsure and GIZ to be delivered to the MFI clients of Accra in Ghana; and finally "Kore W", Fonkoze's catastrophic insurance for its clients in Haiti. Some of these experiences tell us about the importance of aligning incentives among all partners in the chain value, and others, most importantly, of the importance of delivering a very simple product. In some instances the property cover was a rider to life or personal accident insurance, and many times the potential beneficiaries did not buy the coverage because of lack of awareness of it. Another important lesson is that the claims payments should be done as soon as possible in order to avoid the breadwinners requesting expensive credit to cover immediate needs. Finally, it is

¹⁸ Some of these lessons have been document by the MILK (Micro insurance Learning and Knowledge) project.

easier to bundle the microinsurance product with a credit product than to sell it as a stand-alone.

G. MIF Additionality

- 2.12 **Non-Financial Additionality.** Through MIFs knowledge and knowledge partnerships, the MIF is able to help the executing agency with project design to ensure that it includes lessons learned in other latitudes. Experience has shown us that no matter the public character of most of the relevant information, the insurance sector is unaware of its existence because, contrary to the banking financial sector, it has not had a close relationship with development institutions. In this way the insurance companies profit from the partnership with the MIF and the extended partnership with MIF's partners.
- 2.13 **Financial Additionality.** There is no other donor or development agency financing this type of project in Belize. Without MIF's participation, ICB would not be able to sustain and offset all the initial costs of rolling out this very innovative product.
- 2.14 **Knowledge Additionality.** The project will allow the MIF and all the stakeholders to learn, specifically about: (1) Demand for optimal design of and financial viability of a catastrophic property microinsurance product targeted to rural poor and low-income people; (2) Appropriate financial education methods, tools and materials for property insurance; (3) Types of capacity building that are most effective for credit union staff and credit officers in offering catastrophic property microinsurance; (4) Impact of microinsurance-focused financial education on product acceptance, purchase and use of a catastrophic property product; (5) Impact of a catastrophic property index insurance product on offsets and/or correctly layering the risk of Belize's rural poor and low-income people. Additional questions that will be answered through project activities include the feasibility of using a mobile platform to distribute microinsurance in Belize.

H. Project Results

- 2.15 The project will cater to around 3,000 low-income people, members of the participating CUs, during the initial pilot phase. These low-income people are working persons living in the rural areas and in most cases, their income depends on the agriculture sector; 30% of them are expected to be female heads of households. During the rollout phase (after the pilot), the offered product is expected to cover 7,000 persons, for a total of 10,000 beneficiaries. These persons will have access to general property insurance based on a business interruption scheme that will be triggered by the occurrence of heavy rains, landslides, hurricane and similar events.

I. Project Impact

- 2.16 The main impact of the project will be the smoothing of consumption and maintenance of income levels in the event of the occurrence of a natural catastrophe that affects the crops, houses and property of the participating CU members. This impact will be measured by comparing the income levels of those CU clients that were covered with the income level of those not covered. The relevant measures will be developed as part of the monitoring system financed by the project (see ¶ 2.4 (vii)).

J. Systemic Impact

- 2.17 The project will contribute to: (1) adoption or replication by other private insurers; (2) increase in insurance penetration in Belize; and, (3) the strengthening of the OSI with improvements in the legal, regulatory, and policy environment for microinsurance.

III. MONITORING AND EVALUATION STRATEGY

- 3.1 The project will finance a monitoring and control system. This system, although operative, will also monitor progress at the household beneficiary level. To achieve this, a **baseline study** will be performed. The basic information to retrieve from participating low-income members of the CUs for further monitoring and evaluation are: sex, household income level, main economic activity, further economic disaggregation (agriculture, type of crop, manufacturing, commercial or service activities) household composition, employees if any and main risk coping strategies.
- 3.2 **Monitoring:** The project includes the hiring of 6 District Coordinators. These coordinators will have the responsibility of implementing the monitoring system and training a crew of CU and ICB employees as trainers of beneficiaries. The training will include the product characteristics, giving information useful for the beneficiaries according to good practices of consumer protection, and most importantly address insurance awareness and financial literacy. These Coordinators will organize regular visits to the households and will work in tandem with the credit officials. Additionally, surveys will be conducted during regular visits to clients' dwellings. These surveys will be designed along with the monitoring system to ensure that the information needed regarding the clients' situation before and after buying this microinsurance product is obtained. Alternatively, the information may be obtained through the credit offices when the clients pay or renew credits and/or policies.
- 3.3 **Evaluation:** The project will have a midterm and final evaluation. Additionally, throughout the implementation period ICB's microinsurance team will be reviewing the partial results of the monitoring and control system that will be developed. The main questions for evaluation are linked to relevance (see ¶ 2.7) and coherence of the results as compared to beneficiary needs; if the expected results were well set or if there were unsatisfied expectations, and if so, what the project did to fix the situation (Did the project respond accordingly to the specific needs of the target beneficiaries?). The evaluations will also analyze the effectiveness of the design (to what extent the executing agency achieve the results of the project?); and it will also evaluate the efficiency with which the project was executed and managed (How appropriate were the activities executed in terms of time and costs?).
- 3.4 The results, both from knowledge and evaluations, will be shared with other Donors and with the insurance sector not only regionally but also globally due to MIF's partnership with ILO's Microinsurance Innovation Facility. As such, our knowledge products will be posted not only on our website but also in the Microinsurance Network and ILO Knowledge Center.

IV. COST AND FINANCING

- 4.1 The project has a total cost of US\$1,015,150, of which US\$730,000 will be provided by the MIF and US\$285,150 by ICB. The execution period will be of 38 months and the disbursement period will be of 42 months.
- 4.2 Retroactive Recognition of Counterpart Funds: The project includes recognition of counterpart resources since June 1, 2012 and up to the equivalent to US\$30,000.

Components	MIF	Counterpart	Total
Component 1 Microinsurance product designed and commercialized	162,750	14,250	177,000
Component 2 Training and financial education implemented	265,850	102,950	368,800
Component 3 Knowledge developed and strategic communications implemented	31,950	250	32,200
Executing Agency/ Administrative	106,350	167,700	274,050
Baseline, Monitoring and Evaluation	64,000		64,000
Ex post reviews			-
Contingencies	33,850		33,850
Sustainability and closing workshop	5,000		5,000
Sub-total	669,750	285,150	954,900
% of Financing	70.1%	29.9%	100.00%
Institutional Strengthening (Financial Management and/or Procurement Training, if applicable)			
Impact Evaluation Account (5%)	35,250		35,250
Agenda Account	25,000		25,000
Grand Total	730,000 71.9%	285,150 28.1%	1,015,150 100 %

V. EXECUTING AGENCY

A. Executing Agency (EA)

- 5.1 The Insurance Corporation of Belize (ICB) is a general, non-life insurance provider operating throughout Belize. The company was incorporated on January 30th, 1981 under Chapter 250 of the Laws of Belize (Revised Edition 1958), and is registered and licensed to carry out motor vehicle, property, marine, aviation and other liability business in Belize. Operating from sixteen locations, in every district throughout the country of Belize including San Pedro Ambergris Caye and Placencia, ICB has the largest network of agencies and branch offices countrywide. Over the past thirty years, the company has built a strong client base and has refined a suite of tailored products that have contributed to the consistent growth of the company. The company's principal business, conducted through its operating segments, is the underwriting of insurance. In 2012, the company had gross written premiums of US\$5.4 million.
- 5.2 ICB has a strong and committed management, which has demonstrated its ability to grow and try new markets and products, being the first company in Belize to demonstrate a true engagement with low-income people. The management is well respected in the country's insurance sector and in general in the commercial sector through their leadership and participation in the Belize Chamber of Commerce. With the mission oriented towards

servicing people who have not had access to insurance, ICB has implemented complementary services, such as remittances and an insurance pilot with small and low-income entrepreneurs. ICB's lack of experience with gender integration and with marketing high value products to poor persons will be mitigated by their partnership with the CUs.

- 5.3 The Office of the Supervisor of Insurance of Belize's Ministry of Finance supervises ICB. As of 2012, the company reported assets for approximately US\$ 8.9 million, of which 15% are placed in financial investments and 52% in property and equipment. 85% of its liabilities are concentrated in three accounts: (i) unearned premiums (35%), which refers to the portion of the policy premium not yet been earned according to established accrual accounting; (ii) borrowings (36%); and other payable and accruals (14%). The following ratios show: (1) small but highly competitive industry; and (2) a claims ratio positioned around what could be considered an industry benchmark: between 25% and 45%¹⁹. However, because ICB's expenses are on the high side, the overall results imply (as generally occurs with insurance companies) that there is an operational deficit, which in some years is offset with financial revenue from investments. In ICB's case, this situation is exacerbated by the fact that the company operates only with general insurance, which generates more volatile claims than life products. Other reasons that explain the high level of operating expenses are: (i) ICB has been investing in the incorporation of a remittances company; (ii) the company has invested financial, technical and human resources in the microinsurance pilot, which started with a house contents policy; and, (iii) the company did a complete overhaul of the informatics and computer systems.

Underwriting ratios				
	2010	2010	2011	2012
Premium Growth Ratio	0%	-20.6%	13%	5.3%
Claims Ratio	28%	30%	21%	16%
Expense Ratio	84%	81%	73%	78%
Combined Ratio ²⁰	107%	102%	87%	92%
Investment Income/Net revenue	3%	4%	3%	2%

- 5.4 Notwithstanding the described situation, according to the OSI's rules ICB has a strong solvency that shows that the company can assume the financial risks that this project implies. The rule as defined by the Insurance Act of Belize, establishes that the required solvency margin is achieved when the accepted assets exceed the liabilities by at least one fifth of its general premium income of the last preceding financial year. The excess of assets over liabilities for the two previous years (2011 and 2012) exceeds the premium income by 385.33% and 445.16%, respectively. If measured as a simple financial ratio, the company has assets more than double its liabilities.

¹⁹ The high claims ratios of the last 2 years are a direct result of 2 storms: Tropical Storm Matthew on September 25th, 2010 and Hurricane Richard on October 24th 2011.

²⁰ Measures the combined effect of claims and expenses. A measure of profitability used by an insurance company to indicate how well it is performing in its daily operations. A ratio below 100% indicates that the company is making underwriting profit while a ratio above 100% means that it is paying out more money in claims that it is receiving from premiums

Solvency and Capital				
	2010	2010	2011	2012
Return on Assets (ROA)	-7.4%	-3%	4.8%	2.2%
Return on Equity (ROE)	-18.8%	-9.3%	10.4%	4.2%
Assets/Liabilities	166%	147%	185%	206%

- 5.5 ICB will establish an executing unit and the necessary structure to effectively and efficiently execute project activities and manage project resources. ICB will also be responsible for providing progress reports on project implementation. Details on the structure of the executing mechanism and reporting requirements are in Annex 7 in the project technical files.

VI. PROJECT RISKS

- 6.1 During the analysis mission, a risk analysis exercise was done with ICB and 4 CUs. The results were later shared with the regulator, who agreed with the conclusions. The following table illustrates the potential risks and the mitigating actions:

Risk	Mitigation
Problems ensuring the quality of the technical services provided by the distribution channels to the microinsurance clientele.	The project includes training activities and materials designed to help ICB and CU employees understand well insurance and the insurance product to be designed.
Widespread natural disasters could affect the priorities of the stakeholders and the executing agency, leading them to prioritize reconstruction efforts.	The project has no mitigation for this potential risk. However, the training activities for beneficiaries will include risk management tools and as such, they will be able to benefit from adaptation measures.
Potential clients may not be interested in buying insurance due to lack of trust in the insurance sector.	Financial literacy and awareness-raising campaigns included in the design of the project will mitigate this risk. Additionally, the product will be designed as simply as possible in order to ensure that it delivers good value to the clients, thus generating trust.
Financial literacy program is not enough to raise appropriate awareness regarding insurance.	
The clients may decide that they do not have enough incentive to renew the policy.	After the market validation, ICB and the CUs will decide whether or not to make the policy mandatory. It is a common practice to start with mandatory policies and switch to voluntary take-up when the product has proven its benefits.
Economic instability and financial crisis occur that could influence expected financial returns for the insurance companies as they have some investments in government titles.	The project cannot mitigate this risk. However, the EA will be monitoring the general economic situation in order to take appropriate measures.

VII. COMPLIANCE WITH MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 7.1 The Executing Agency will adhere to the standard MIF disbursement, procurement and financial management arrangements specified in Annex VIII.

VIII. ENVIRONMENTAL AND SOCIAL REVIEW

- 8.1 This operation was screened and classified as required by the IDB's safeguard policy (OP-703). Given the limited impacts and risks, the proposed category for the project is C.

IX. INFORMATION DISCLOSURE AND INTELLECTUAL PROPERTY

- 9.1 All knowledge and communication products and other material developed during project implementation are IDB/MIF property. Nevertheless, the Executing Agency may request a license to use and disseminate these products, given its commitment to make them public and promote knowledge transfer to other interested institutions.