



Evaluation Summary



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Promoting Access to Micro-insurance for Financial Inclusion and Decent Work

Country Evaluation Report: Ethiopia – Joint Final External Evaluation

Quick Facts

Countries: Ethiopia

Final Evaluation: June 5th, 2014

Mode of Evaluation: Independent

Administrative Office: SPF

Technical Office: SPF

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Project Code: INT/10/14/CDF

Donor & Project Budget: UNCDF, US
\$650,000

Keywords: micro-insurance

Evaluation Summary (excerpt from the executive summary)

This report is based on the external evaluation of the ILO & UNCFD Joint Program on Micro-insurance (JP), conducted by Denis Garand & Associates. It contains the country-level findings and provides specific recommendations for the next phase of the JP in Ethiopia. The results of our evaluation are targeted at the Micro-insurance Innovation Facility team, donors as well as country-level stakeholders. General best practices and lessons learned from the country

pilots that have a broader relevance are included in the report "Recommendations for Micro-insurance Innovation Facility II Market Development Strategy" and will thus not be part of this document.

The findings presented in this document are based on an extensive review of available documents and data, as well as a one-week country visit (March 2014) during which the main project stakeholders were interviewed.

The ILO/UNCDF Joint project on "Promoting Access to Micro-insurance for Financial Inclusion and Decent Work" was established in 2007 to develop and test a process of national strategy development in the area of micro-insurance using a sector based approach.

In the pilot countries, the JP is supposed to act as a 'market catalyst' that provides capacity development at early stages of micro-insurance market development. At some point in time, the industry should reach a stage where it can offer a range of valuable, demand-oriented micro-insurance products on a commercially sustainable basis. Ethiopia was selected as a pilot country in 2009. Market development activities started with the completion of a Micro-insurance Country Diagnostic and the hiring of a country coordinator.

The Joint Program in Ethiopia started out under rather difficult circumstances: a lack of stakeholder consensus on market development, and a closed and underdeveloped insurance

sector with limited interest in micro-insurance. Changes in the legal framework in 2009 provided MFIs with an unregulated space to sell micro-insurance to their client base. This led to a rapid formalisation and expansion of microinsurance provision by MFIs. More recently, cooperatives have been allowed to formally underwrite micro-insurance as well.

MFIs are currently the main provider of micro-insurance in Ethiopia, with an estimated number of 2.1 – 2.4 million policyholders. SACCOs provide coverage to another 1 million people approximately. A review of the products that are currently available indicates a predominance of compulsory credit life insurance, which is typical for micro-insurance markets at an early stage of development. The ability of MFIs and cooperatives to underwrite their own products has discouraged the development of micro-insurance by commercial insurers; their involvement has been largely limited to a number of agricultural (index) insurance pilots, with varying degrees of success and sustainability.

In spite of the impressive increase in outreach in the Ethiopian micro-insurance market, a number of major challenges remain, including:

- A fragmented regulatory environment: 3 different regulators oversee micro-insurance by insurance companies, MFIs and cooperatives
- Limited product diversity: apart from the agricultural pilots, there are no voluntary covers on the market
- Limited client value: as indicated by low claims ratios
- Limited technical capacity: particularly amongst MFIs and cooperatives
- Limited awareness and understanding of (micro)insurance amongst the target group

Since 2009, the JP has implemented a wide range of activities to address some of these challenges, working with various stakeholders on the macro, meso and micro level. It also leveraged external resources and expertise to support market development.

However, the fragmented nature of the micro-insurance landscape in Ethiopia complicated the

implementation of a multi-stakeholder National Strategy on micro-insurance as envisioned by the Joint Program. As a result, there appears to be little co-ordinated stakeholder 'ownership' of the JP market development agenda. Given the lack of consensus between stakeholders, the country coordinator resorted to working with insurance providers and other partner organizations on an individual basis, focusing on introducing new products and improving technical capacity.

Much has been achieved in this way, particularly in expanding the outreach of micro-insurance by cooperatives and MFIs. In general the JP (in the person of the country coordinator) enjoys an excellent reputation, and stakeholders are satisfied with the support received. Some of the milestones achieved by the JP include:

- The drafting of a Micro-insurance Policy Framework and a set of Micro-insurance Directives (with the World Bank - not yet issued). Once adopted, will bring all micro-insurance providers under a single regulatory regime, and therewith provide a crucial step towards improved business practices and consumer protection.
- Integration of micro-insurance in the second phase of the Rural Financial Intermediation Programme (RUFIP) between IFAP and the Government of Ethiopia.
- Supporting the introduction of new and improved products, as well as organizing training sessions for clients and providers.

Nevertheless, micro-insurance in Ethiopia is still at an early stage and will need continued external support in order to increase client value, product diversity and consumer capability.

Going forward, we believe the JP's support should be based on a coherent market development strategy around the abovementioned challenges. Overarching objective should be to balance the need for increased client value and consumer protection, with the seemingly strong local market's appetite to increase outreach even further than is currently the case. Ideally, this strategy should be endorsed by and implemented in cooperation

with the main stakeholders, particularly the regulatory bodies.

Recommendations

Based on our analysis of the state of the micro-insurance sector, we provide the following recommendations for the future direction of the Joint Program:

- 1) Support the implementation of the new Micro-insurance Directives
- 2) Improving the client value of existing products
- 3) Supporting the introduction of demand-oriented voluntary products
- 4) Improving technical capacity of micro-insurance providers
- 5) Educating the target group about (micro) insurance
- 6) Ensure stronger partner involvement in project implementation