

Agriculture Insurance for Smallholder Farmers in Mexico

Tripartite Project Factsheet



Mexico has seen a drastic increase in the frequency and severity of disasters in recent years with a strong impact in the country's economy, especially in the agriculture sector. Over the last two decades, more than 80 percent of total economic losses from weather-related disasters affected the sector, with 87 percent of maize farmers in South Mexico reporting negative effects due to climate change and weather events. Smallholder farmers, who often cultivate non-irrigated lands, are the most vulnerable to crop losses caused by floods and droughts. In collaboration with the Secretariat of Treasury and Public Credit and Secretariat of Agriculture and Rural Development in 2022, this Tripartite project has successfully developed and piloted a sovereign parametric insurance solution that covered over 10,000 smallholder farmers against floods and droughts. The coverage was triggered twice during the pilot test, and over 1,400 producers received a direct payment to make their livelihoods and communities more resilient against climate change. The positive results of the pilot test were submitted to the Secretariat of Treasury and Public Credit, who will in turn seek Federal resources for premium payments to continue with the extension of the project in 2024 through the Federal Budget. In addition to playing a coordination, project management and convening role, UNDP, through its Insurance and Risk Finance Facility, works closely with the Government of Mexico to make risk management and transfer central to the way in which the country tackles both climate change and development.

Policyholders

Secretariat of the Treasury and Public Credit and the Secretariat of Agriculture and Rural Development

Insured Interest

White corn crops

Product

Parametric insurance for drought and excess rainfall

Timeline

March 2022 to March 2025

Project Development Cost

€ 4.4 million

Expected Impacts



Protecting 3.7 million people against harvest shortfall losses due to drought and uneven rainfall



Helping smallholders farmers become more resilient to climate change



Improving the management of fiscal resources for the government to better respond to climatological contingencies



Enhancing the government's capacity and knowledge of parametric insurance and how it can build financial resilience



Estimated Beneficiaries by 2025

3.7 million poor and vulnerable people



Mexico Tripartite Project - Policy Payout Note

Problem

- In Mexico, 80% of farmers are small producers that cultivate less than 5 hectares.
- Only 18% of the small producers have access to credit and therefore, to an agricultural commercial insurance.

Solution

- The Insurance Development Forum, the Ministry of Treasury and Public Credit and the United Nations Development Programme (UNDP) developed a parametric insurance for small producers that are vulnerable to climate events.
- This insurance product was granted to small Mexican producers in a pilot project during 2022.
- The pilot project was innovative because the insurance product was established as a protection mechanism for Mexican small producers with vulnerability and low income, and because of the use of technological tools for its distribution.

Key Results

- The pilot project was focused on 11 municipalities of 4 states in Mexico (Figure 1). Its objective was to enroll close to 10,000 small producers and it achieved to enroll 94.1% of this objective, which represents 24,240 hectares farmed.
 - 3.2% of the small producers weren't enrolled because of migration or decease, 1.3% couldn't be located and only 1.4% didn't want to enroll because of interest lack.
- Out of the people enrolled, 64% were men and 36% were women; 9% are from indigenous communities; 34% have between 45 and 60 years; 30% between 18 and 45 years; and 25% between 60 and 75 years.
- The maize crops represent the principal source of income for 68% of the small producers.
- 60% of the beneficiaries (55% men and 73% women) are financially included, which means that they have a financial account where money can be transferred.
- 95% of the small producers were enrolled in communitarian events and 5% in their homes. The enrollment process considered the hiring of women enrollers (42%), the promotion in rural communities via local communications means and indigenous translation in some municipalities. Also, Raincoat designed a mobile application (app) that was simple and agile for this process and that could be used even without any connectivity.

◦ In this sense, 95% of the small producers understood the insurance product after the informative session; and, 6 months later, 81% of the people remember the particularities of the product.

- 60% of the small producers learned about the product because of their communitarian and rural leadership, 24% because of the government and 10% because of friends and family.
- The insurance was activated in two municipalities because of excessive rainfall. From the small producers that were benefited by the insurance, 95% assure that they are satisfied by the product; and 100% of the women that were beneficiaries declared that they would renew the insurance product.
- This project is expected to be scaled to 100 municipalities in 19 states with more than 200,000 small producers.

Opportunity Areas

- The administrative processes from the public and private institutions were a challenge because they resulted in a delay for the project kick off, which increased the risk of effectiveness in its execution.
- Even though the training and knowledge materials were designed to be simple for the small producers, they could be even more simplified, using a less complex language.
- The enrollment cost was high: approximately \$600 MXN (\$32 USD) per producer.
- In some communities, there was no capacity from the enrollers to translate to indigenous tongues, so they had to lean in community members, so the producers understood the product.
- After some time, there was a decrease in the product knowledge among the small producers. In this sense, it would be important to undertake some reminder actions with the small producers, principally about the coverage and the most relevant characteristics of the product.
- Of the population that was benefited by the insurance, 7.7% has not cashed out the benefit. They were mainly notified by text message (SMS).
- Finally, the sinister payments process was complex and had some challenges, such as a high cost of delivering payment orders to beneficiaries that were not financially included.