Agriculture Insurance in Latin America: All About Public-Private Partnerships and Public Programs to Protect Vulnerable Farmers

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The agricultural sector plays a pivotal role in the economy and lives of people in the Latin American and Caribbean (LAC) region. Agricultural producers in LAC face a myriad of risks that can threaten their output, their income, and, sometimes, their consumption. However, they have devised various strategies to deal with the risks affecting their production, using both active risk management and risk-coping strategies. While risk management strategies attempt to address the risk ex ante, risk-coping strategies address it ex post. The management of agricultural production risks relies on an optimal combination of technical and, when they are available, financial tools. Agricultural producers can retain small but recurrent risks through the use of appropriate on-farm risk mitigation techniques (such as irrigation, crop management, and pest prevention) and self-insurance tools such as savings and contingent credit. However, agricultural producers are not able to manage the less frequent but more severe losses affecting their agricultural activities; thus, some farmers transfer them to other parties through financial mechanisms like insurance, when available and accessible.

Agricultural insurance is typically one of many tools that farmers can use as part of their comprehensive strategy for managing agricultural production risks. The level of development of agricultural insurance is heterogeneous among the different countries and geographic areas in the LAC region. Commercial agriculture insurance premiums have been growing steadily in recent years, but most of the growth has come from government programs and subsidies that target the most vulnerable farmers, in particular in countries like Mexico, Brazil, and Peru (see "Catastrophic Insurance Premiums" in Graph below).

Premiums and Fiscal Expenditures on Agricultural Insurance in LAC, 2004–2009

Source: Arias and Iturrioz (2010)

A wide range of models for the provision of agricultural insurance is available in LAC countries. The public sector mechanisms to support the development of agricultural insurance vary among the LAC countries. In recent years, several countries have established public sector agricultural risk units that provide technical support to the public sector and agricultural insurance companies, and many countries subsidize agricultural insurance premiums in an effort to support development of the market. The public sector in many LAC countries has an active role in enabling the legal and regulatory framework to promote agricultural insurance. Direct intervention of the public sector in the provision of agricultural insurance or reinsurance is rare.

The creation of Public Private Partnerships (PPPs) for financing catastrophic agricultural risk layers is a recent trend in the region. The public sector (at the national and sub-national levels) in several LAC countries has recently begun to purchase private agricultural insurance coverage to transfer catastrophic agricultural risks to international markets and protect small traditional and semi-commercial farmers. Some countries in the region have developed special agricultural insurance programs targeting small and marginal farmers, which has driven the exponential growth of agricultural insurance premiums in LAC. This has been the area where the World Bank has been providing the most support in the LAC region.

Following client demand, in recent years the World Bank has focused its attention on macro and meso level agriculture insurance programs. Given the constant need for the public sector in developing countries to support vulnerable farmers after natural disasters, the Bank has been working with several governments in the region to improve the fiscal management of such programs through better financial mechanisms for responding to such catastrophic events in rural areas quickly and with sufficient resources. For catastrophic events in rural areas, agriculture insurance can be an important tool to help better manage the fiscal exposure of the government, as well as ensuring that disaster assistance is appropriate in size and provided quickly to farmers. Some examples of such recent World Bank-supported macro and meso level agriculture insurance initiatives include: Mexico, Argentina, Uruguay, and Jamaica.

Mexico: Mexico is unique in having a series of macro-level catastrophe crop and livestock insurance programs (Seguro Catastrofico Agropecuario or SAC) which are specifically designed to provide a social safety net for the large numbers of small semi-subsistence rural farming households that are below the threshold of insurability by the commercial sector. Since its inception in 2003 the CADENA-SAC program has expanded quickly. For example, in 2011 approximately 8 million hectares of crops were insured in 27 states with over 2.5 million insured farmers (beneficiaries), representing about 56% of this target group (4.5 million subsistence smallholders farming 16.5 million hectares). In addition, over 4.2 million head of livestock were insured under the catastrophe livestock program in 2011. Overall the CADENA crop and livestock insurance programs in 2011 covered 2,362 municipalities in 30 of Mexico's 32 states[1] with Total Premium Income of more than MXN 1.5 billion and Total Sum Insured (TSI) of 12 billion.

Argentina and Uruguay: In Argentina and Uruguay, the respective Ministries of Agriculture, have designed an index-based livestock insurance contract to help them manage and transfer drought risks. This insurance product is based on an NDVI[2] which measures the greenness of pasturelands. Both countries are considering linking this insurance product to their agriculture emergency funds for the livestock sector to cover part of the catastrophic exposure of the government in order to better respond to drought events.

Jamaica: The Coffee Industry Board (CIB) of Jamaica used to have agriculture insurance until 2004 when large losses prompted the insurance industry to discontinue offering coverage. Now, index-based solutions are seen as a potential option for the insurance industry and the CIB to sell and buy insurance through a transparent and objective payout mechanism. CIB has undertaken a feasibility study and is currently seeking a wind index-based coverage for the next hurricane season.

Organizational Chart for Wind Index-Based Insurance

Source: World Bank, Jamaica: Index Insurance Feasibility Study for the Coffee Sector (2010).

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[1] Mexico has 31 states plus 1 District Federal and a total of 2,445 municipalities

[2] NDVI = Normalized Difference Vegetative Index

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