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## CASE BRIEF: **MIDAGRI**

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**Description:** The Peruvian Ministry for the Development of Agriculture and Irrigation (MIDAGRI - El Ministerio de Desarrollo Agrario y Riego del Perú) decided to introduce agriculture insurance as part of its policy to develop the competitiveness of the Peruvian agricultural sector. It therefore established the catastrophic agriculture insurance programme, known as the SAC (Seguro Agrícola Catastrófico).

**Insurance product:** The SAC is a catastrophic insurance product funded by MIDAGRI to protect smallholder farmers who largely engage in subsistence farming.

**Number of beneficiaries:** More than 950,000 farmers during the 2020-2021 agricultural season

In 2009, the Peruvian Ministry for the Development of Agriculture and Irrigation (MIDAGRI - El Ministerio de Desarrollo Agrario y Riego del Perú) implemented an insurance programme known as the SAC (Seguro Agrícola Catastrófico). The SAC is a catastrophic agriculture insurance product and the premium costs are 100 per cent financed by the state. The programme was developed as part of the ministry's policy to develop the competitiveness of the Peruvian agricultural sector and was designed to reduce the vulnerability to natural disasters of farmers who have limited resources and largely engage in subsistence farming.

MIDAGRI decided to implement the premium subsidy due to farmers' limited ability to purchase insurance and lack of knowledge of its use in agriculture. The participating insurance companies take on the risk and are responsible for operating the scheme up to the point of making claims payments to the farmers.

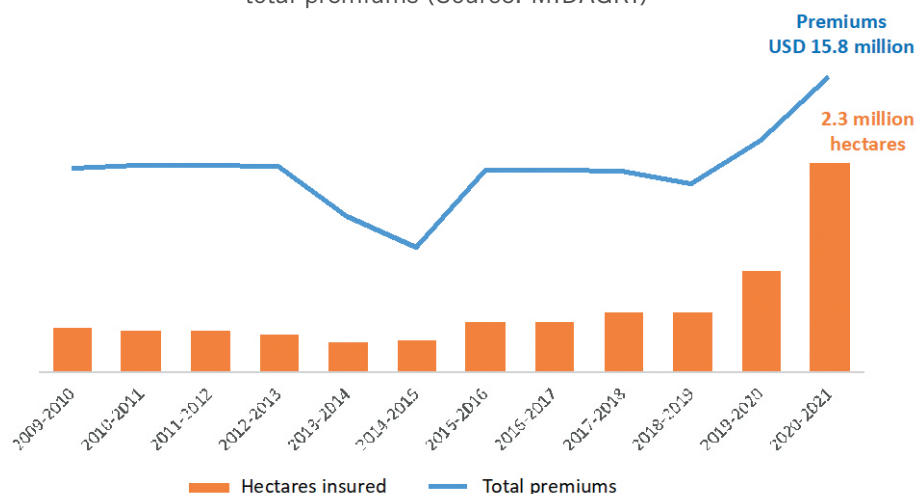
The goal of the SAC is to protect crops that are affected by 15 types of catastrophic events: drought, excessive rains, hail, high temperatures, excess humidity, flooding, fire, the inability to harvest due to weather events, frost, landslides, high winds, plagues and pests, diseases, volcanic eruptions and earthquakes.

MIDAGRI has been gradually improving the SAC insurance scheme, allowing it to increase its coverage in rural areas and protect a greater number of smallholder farmers. Some key changes have included:

- **An increase in resources allocated to the premium subsidy.** The ministry increased the premium subsidy from approximately USD 9.7 million, for the 2019-2020 campaign, to USD 15.8 million for the 2020-2021 campaign (Figure 1). This 63 per cent increase has allowed the SAC to cover all of Peru's 24 departments. The fact that the scheme was implemented at national level during the current campaign promoted greater interest in participating among insurance companies and allowed the scheme to benefit many more smallholder farmers.

- **Changes in the contracting process.** From 2017, changes were made in the contracting process. Previously, insurers bid to administer the entire SAC portfolio, made up of all the departments of the country that were to be insured. Only one insurer or consortium of insurers was then selected. Now, insurers compete to administer each department independently. The objective of this change was to involve additional insurers and to receive a greater number of bids. In the last agricultural campaign before this change was implemented, only one consortium formed of two insurers registered and participated in the bidding process. During the last season, four of the largest insurers in the country participated. As a result, several insurance companies have developed the specialized technical capabilities required for agriculture insurance. Furthermore, with increased experience, the fees charged by the insurers have reduced over time.

Figure 1: Increase in hectares insured through the SAC compared to total premiums (Source: MIDAGRI)



- **An increase in the number of smallholder farmers protected.** With both the reduction in the insurers' fees and the increased resources allocated by the state, it has been possible to achieve a dramatic increase in the number of hectares insured and the number of smallholder farmers protected.

At the same time, the range of crops insured under the scheme has also been expanded. When the SAC began, the four most important types of crops were prioritized and insured for each department. This number increased to 40 types of crops under the 2020-2021 campaign, allowing the scheme to benefit a wider range of smallholder farmers.

- **A focus on financial education.** With time, additional requirements have been introduced for insurance companies participating in the scheme. These include carrying out training for farmers and local authorities, registering farmers, and making claims payments directly to farmers. An important part of these responsibilities is to carry out financial education for smallholder families. MIDAGRI developed standardized educational materials to train smallholder farmers on risk management and encourage them to exchange knowledge and experiences of insurance. The insurers are responsible for carrying out financial education sessions for farmers based on these materials in the department in which they administer the insurance.



- **An integrated information system.** MIDAGRI implemented a claims reporting system to centralize the information collected by insurers while managing claims for the SAC. This system serves as a source of statistical information and an important guide in determining the levels of risk in each department. This information allows the actuaries of the insurance companies to prepare more competitive bids for the annual contracting process for the SAC.

- **Improvements in the claims process.** MIDAGRI carried out a review of policy conditions and claims assessment manuals in order to standardize the criteria used by the insurance companies to evaluate claims. At the same time, the ministry decided that the insurers should take responsibility for opening savings accounts in the name of each beneficiary for claims payments to be made into, and that the insurers would also cover the costs of the commissions associated with opening these accounts. In this way, the process of making claims payments directly to farmers was improved and farmers received the payments more quickly.

It was important that all changes took place in dialogue with all the relevant actors. For this reason, MIDAGRI worked with the German international cooperation agency, GIZ, to implement the Climate, Agriculture and Risk Transfer project (CAT). This project aimed to improve the institutional framework for agriculture insurance within MIDAGRI and to strengthen its technical and communication capacities by financing the support of consultants who were experts in the management of agriculture insurance and information systems. As part of this project, regular "public-private dialogues" were established, in which various public and private institutions participate, including representatives from various ministries, the insurance supervisor, the insurance association, financial entities and other guest representatives. In these meetings, proposals are brought forward to develop a joint agenda among all actors to ensure the sustainability of the agriculture insurance programme.

In addition, MIDAGRI developed a regulatory framework to strengthen agriculture insurance as a mechanism to support smallholder farmers. It also created a specialized office within the ministry to provide technical support for the programme and administer the agriculture insurance subsidies.

The SAC has had an important impact on smallholder farmers in Peru who are vulnerable to catastrophic climate risks. In the current 2020-2021 agricultural season, a total of 2.3 million hectares have been insured throughout the 24 departments of Peru. And, since the SAC began in 2009 to date, a total of approximately USD 47 million has been paid in claims.

#### Impacts on financial inclusion

Thousands of farmers, many of whom have never had a bank account yet alone insurance, have benefited from a state-sponsored insurance product for the first time and received a claims payment in response to a catastrophic risk. This experience, as well as the financial education provided through the SAC training programme, has encouraged farmers to learn more about insurance and share their experiences with the scheme with family and friends.

In addition, the process of receiving claims payments has had an additional impact in terms of financial inclusion. In order for farmers to receive a claims payment, they must go to a bank branch. For many beneficiaries, this is their first experience with a banking entity. Although most farmers chose to simply withdraw their claims payment in cash, the bank can also promote to farmers the option of keeping part of the money in a savings account, and some farmers chose to do so. In this way, the SAC provides opportunities to foster the financial inclusion of the rural population in Peru.



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Social Finance & Impact Insurance

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