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CASE BRIEF:

LA ASOCIACIÓN MEXICANA DE UNIONES DE CRÉDITO DEL SECTOR SOCIAL (AMUCSS)

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Name of the scheme: *RedSol Agrícola, Fondo de Aseguramiento* (Insurance Fund)

Location: Mexico

Description: Small-scale agricultural insurance, protecting farmers against climatic risks. Farmers decide which climatic risks to cover and for which crops. Losses are assessed on an indemnity basis.

Farmers insured: 1,985 as of March 2013

Hectares insured: 2,797 as of March 2013

Mexican agriculture provides a large majority of the food consumed in the nation, but production is frequently constrained by the climate. Low rainfall brings frequent droughts in the northern part of the country, while the country's location in the Intertropical Convergence Zone makes the country prone to hurricanes and tropical storms on both the Pacific and Gulf of Mexico coasts.

Agriculture and livestock in Mexico employ nearly 21 per cent of the total labour force, yet make up less than 4 per cent of GDP. Around 50 per cent of farmers in Mexico own less than two hectares of land. This segment of small-scale farmers is the most vulnerable and the least able to deal with unforeseen shocks.

AGRICULTURAL INSURANCE FUNDS SUPPORTED BY THE MEXICAN GOVERNMENT

Given the vulnerability and importance of the agricultural sector, the Mexican government has been providing different forms of insurance mechanisms to the rural sector since the 1960s. In 1998 the Mexican government, through its national insurance institution (Agroasemex), developed a government agricultural insurance scheme, called *Fondos de Autoaseguramiento* (self-insurance funds). The scheme attempted to address one of the hardest challenges of agriculture insurance: finding an appropriate distribution channel. The scheme leveraged existing groups of farmers that had been formed for farming activities.

The scheme requires each group of farmers to establish an Insurance Fund. All the farmers pay an annual premium, determined by the value of the expected produce and the risks being covered. This fund covers the administration and reinsurance costs, and creates a reserve for the insurance risks. The Insurance Fund

members have access to a government subsidy for paying the premium.

If claims exceed the amount covered by the risk reserve, the excess is covered by the reinsurer. At the end of each agricultural growing season, a social fund is created from any remaining funds that exist. Members present their proposals for this surplus, with a final decision made at the members' annual general meeting. For example, the money could pay for training on farming techniques, partial payment of the following year's insurance premium, or be invested in expanding the fund.

YET, SMALL-SCALE FARMERS STRUGGLED TO PARTICIPATE

Premiums depend on the amount of hectares that are covered. As such, a group of a few large-scale farmers can easily form a fund with sufficient premiums to cover administration costs and participate in the scheme on a financially sustainable basis. A much larger number of small-scale farmers, however, are required to create such a fund. This group would typically need to be larger than any existing single association or group of small-scale farmers. Small-scale farmers are not excluded from the scheme, but the scale of their organizations makes it difficult for them to participate.

AN INTERMEDIARY EXTENDS ACCESS

La Asociación Mexicana de Uniones de Crédito del Sector Social (AMUCSS) is a not-for-profit organisation that services a network of rural financial institutions in the areas of treasury services, training, microcredit and savings methodologies, microinsurance, remittances, food security, and financial education.



AMUCSS has offered life microinsurance since 2005 and in 2009 created an insurance intermediary, *Red Solidaria de Microseguros Rurales* (RedSol), to administer and oversee its microinsurance programme. In 2009, AMUCSS undertook a study on the vulnerability of the communities in which it works. The results showed that agricultural activities and livestock formed the main source of income and assets of the majority of the surveyed rural households. AMUCSS therefore decided to extend its existing microinsurance programme from life coverage to also provide agricultural microinsurance.

Acting as a microinsurance intermediary, RedSol recognized that it could attempt to aggregate a sufficient number of small-scale farmers to form a group that could operate on a financially sustainable basis under the existing government scheme. It therefore established *RedSol Agrícola*, which functions as one fund within the scheme.

The *RedSol Agrícola* fund was set up in August 2011, starting operations in the 2011-2012 agricultural season. For the season 2012-2013, cover was extended to 1,985 clients, insuring a total of 2,797 hectares, primarily consisting of maize, coffee and peanuts. The product included options to cover drought, flood, hail, low temperatures, frost, hurricane, cyclone, high

winds and tornados. The fund has authorization to operate in a total of 152 municipalities in the Mexican states of Chiapas, Guerrero, Puebla, Oaxaca, and Veracruz.

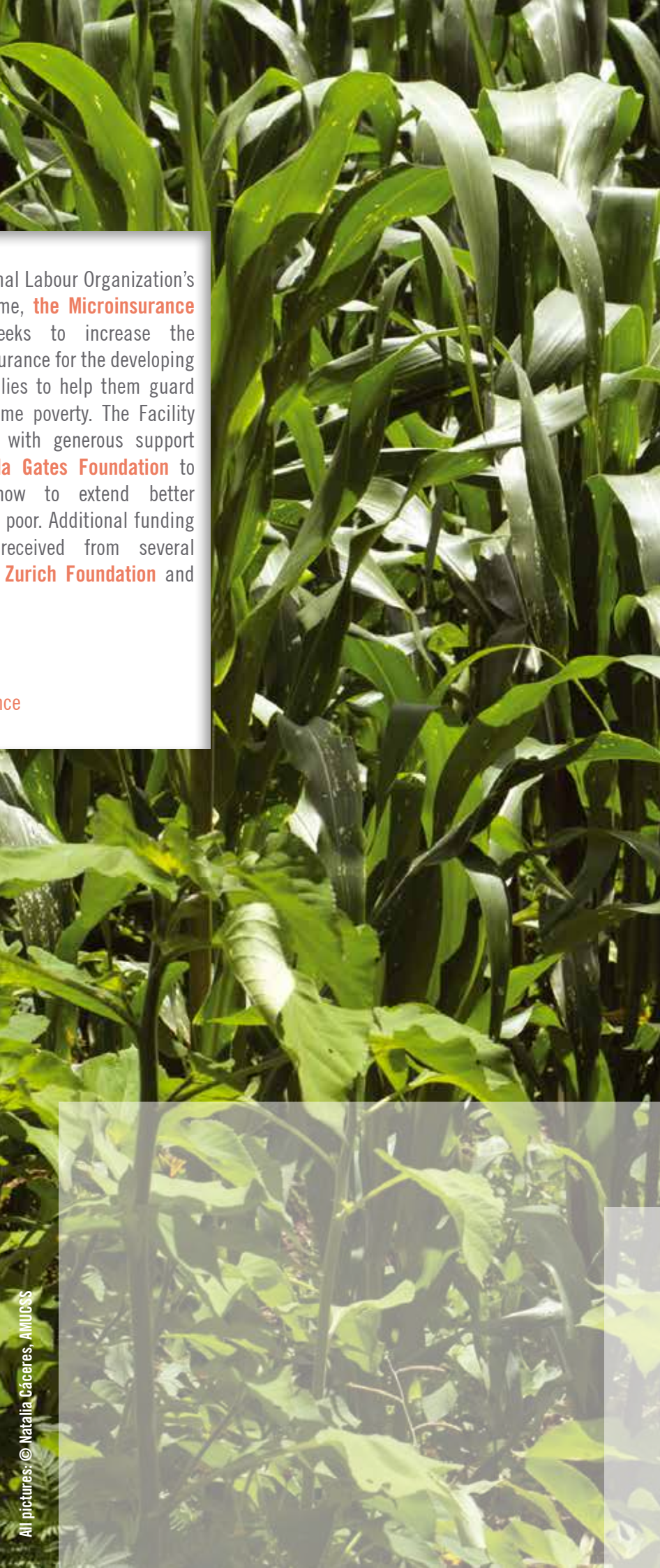
The fund is operated in a very participatory manner. Through members' annual general meetings, board of directors meetings, and training events, the fund members are involved in many aspects of the scheme, including the field inspections that determine the plots of land and crops to be insured.

The fund members, through their representative organisations, participate in the decision-making of the fund, have positions on the board of directors, and are knowledgeable about the management and administration of resources. This participation promotes transparency and democratic participation.

By understanding the agricultural risk management needs of its clients and the difficulties they faced in accessing the existing government scheme, RedSol was able to extend the reach of the scheme to previously excluded clients. Organisations that already work with low-income populations often best understand their needs. These organisations can be an important ally to enable low-income people to access government programmes, and therefore improve the impact of those programmes.

SUMMARY OF PRODUCERS AND INSURED AREA BY STATE AS OF MARCH 2013

State	Number of farmers	Hectares	Crop
Veracruz	469	753	Coffee
Puebla	1,472	1,805	Coffee
Chiapas	44	240	Maize/Peanut
Total	1,985	2,797	



Housed at the International Labour Organization's Social Finance Programme, **the Microinsurance Innovation Facility** seeks to increase the availability of quality insurance for the developing world's low income families to help them guard against risk and overcome poverty. The Facility was launched in 2008 with generous support from **the Bill & Melinda Gates Foundation** to learn and promote how to extend better insurance to the working poor. Additional funding has gratefully been received from several donors, including the **Z Zurich Foundation** and **AusAID**.

See more at
www.ilo.org/microinsurance