

On behalf of:



# Insured against climate risks

## CAT

### Context

Around three quarters of Peru's rural population works in the agricultural sector. The main crops under production are sugarcane, rice, corn, potatoes, bananas, cassava and grasses for livestock farming. In recent years, the agricultural sector has experienced dynamic growth, with its annual export volume increasing by 41 per cent between 2010 and 2017 to 4.8 billion US dollars. However, climate change is leading to an increase in droughts, floods, landslides and extreme temperature fluctuations. The El Niño climate phenomenon regularly causes billions of dollars' worth of economic damage.

These extreme weather events are making it difficult to fight poverty, which affects about 60 per cent of rural people. The Peruvian Government has set out to increase incomes and improve living conditions, especially for smallholder farmers. It aims to help them protect themselves against climate risks and associated crop losses more effectively and to encourage the farmers themselves to apply risk-reducing measures. By growing bananas, which require significantly less water than rice, for example, they can prevent losses during severe droughts.

### Objective

Peru has a risk transfer system for the agricultural sector financed by the state and the private sector, including insurance against climate risks.

Title	Integrated financial management of climate risks in the agricultural sector (CAT)
Commissioned by	German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) as part of the International Climate Initiative (IKI)
Country	Peru
Lead executing agency	Ministry of Agriculture and Irrigation (Ministerio de Agricultura y Riego – MINAGRI)
Overall Term	01/2014 to 02/2019

### Approach

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH is supporting the development of integrated financial management to protect against climate risks in Peru. In the project funded by the International Climate Initiative (IKI), GIZ is cooperating with the Ministry of Agriculture and Irrigation, the banking supervisory authority SBS, insurance companies and private pension funds, the Ministry of Economic Affairs and Finance and private insurance companies. An alliance with the reinsurance company Munich Re was formed to analyse the vulnerability of the agricultural sector to climate change.

The aim is to create the institutional and legal frameworks for the risk transfer system by 2019. Guidelines on agricultural insurance, which were previously laid down in various laws, decrees, resolutions, plans and political initiatives, are being compiled systematically. In addition, the tasks of the various institutions are being coordinated more effectively at all levels of government. The state and the agricultural, insurance and banking sectors are



*The quinoa cultivation and yields of other crops are endangered by extreme weather events.*



*Left: Farmers in the Andes may be affected by extreme weather events.*

*Right: The collection of agricultural statistics is supported by the project.*

jointly developing a risk transfer strategy. In future, all information relating to policies and damage is to be gathered within a single database.

A geo-referenced data collection and management system is being created to assess climate risks. A pilot run for zoning agricultural land (*Mapeo de Áreas Agrícolas* – MAA) using satellite and remote sensing data is being implemented in the Lambayeque, Apurímac and Ucayali regions, making agricultural statistics more reliable.

Training programmes are being developed for specialised staff in the public and private sectors to develop the necessary skills for the sustainable management of risk transfer systems.

## Results

The market for agricultural insurance in Peru has grown by almost 97 per cent since the project began. In 2017, some 690,000 hectares – or 16.6 per cent of cropland – were covered by the agricultural disaster insurance and commercial agricultural insurance systems, whereas only 350,000 hectares were covered at the start of the

project in 2014. Agricultural insurance companies currently provide protection against financial risks caused by climate events for a total of 300,000 agricultural producers in 14 regions. Recommendations for calculating premium instalments have led to a reduction in insurance premiums and increased payout rates.

Training for experts and decision-makers in the Ministry of Agriculture and the supervisory authority have helped improve the quality of technical decisions. A total of 22 employees from ten institutions have successfully completed an online course on agricultural insurance in Peru. The course taught important agricultural insurance concepts that participants use in their daily work. Twenty-four agricultural economists from the National Agrarian University have been trained in a course combining theory and practice on agricultural insurance and claims settlement.

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