



Community contingency funds, an agricultural risk insurance for vulnerable households

Building resilience in disaster prone areas in Central America's Dry Corridor

→ Context

The "Corredor Seco" (Dry Corridor) runs across El Salvador, Guatemala, Honduras and Nicaragua and is one of the most vulnerable parts of Central America. This territory is characterized by variable and extreme weather conditions: recurrent abnormal dry spells and droughts, and an increasingly irregular rainfall pattern causing flash floods and landslides. In three out of five harvest cycles, small farming families suffer significant losses and are unable to harvest enough to sustain household livelihoods and food security. Guatemala and Honduras are particularly hard hit, representing more than 50 percent of the region's subsistence farmers. With funding from the Government of Belgium and in collaboration with local and national governments, FAO has strengthened the risk management capacities of subsistence farmers in Guatemala and Honduras. This has enabled them to save, invest and protect their livelihoods through an innovative approach – Community Contingency Funds (CCFs), which build the resilience of farmers' associations in three key areas: technical, financial and social.

→ Challenge

Among the main challenges faced by smallholders and local institutions in improving rural livelihoods are the lack of local economic and financial opportunities, as well as technical assistance for good agricultural and environmental practices to better cope with disaster risks. Climate-related shocks affect the production systems of men and women who rely on rainfed agriculture for their livelihoods and increase the risk of soaring food prices due to unstable markets. Vulnerable agricultural farmers do not have access to fertile lands and they are forced to produce in marginal slope lands generating soil degradation with very low yields and high climatic risks. Women are particularly affected by the recurrent impact of climate-related disasters and lack access to private insurance, along with the majority of the rural poor.

→ Methodological approach

Capacity development is at the core of the CCFs through:

- Empowering farmers' associations by promoting **risk management** plans and reducing the vulnerability of their production systems;
- Developing local capacities of community-led **fund management and administration**, including rural microfinance services such as the savings and loans mechanisms;
- Supporting association members to adopt **good agricultural practices** for disaster risk reduction, climate change adaptation and natural resource management that help protect and build the resilience of rural livelihoods and are a condition to access CCFs;
- Strengthening **community-based early warning systems** for food security and nutrition;
- Strengthening CCFs through the **income-generating activities** to recapitalize the fund and ensure its sustainability.



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Key facts

Guatemala and Honduras are among the 4 countries most affected by extreme weather events (1991–2010).

About 2 million farming families in the Dry Corridor cultivate less than 2 ha; 70% of these families live under the poverty line and 30% in extreme poverty.

Private insurance services cover only about 5% of smallholder farmers in the region, impeding access to credit and agricultural insurance services for the majority of small-scale farmers.

Gender → *Rural women are central actors in disaster risk reduction. According to the project evaluation, 81% of the beneficiaries of CCF credits for emergency response are women. CCF credits are mainly used to procure productive inputs and meet families' basic needs including education, health and food.*

Environment → *CCFs address the unsustainable exploitation of natural resources because access to the funds is dependent upon beneficiaries applying agreed good practices for agriculture, risk reduction, climate change adaptation and natural resource management.*



What are CCFs and how do they contribute to increasing resilient livelihoods?

CCFs are an innovative risk protection and financial mechanism that provides a form of farm insurance to those who do not have access to conventional financial systems. They are a solidarity fund whose resources are managed by a farmers' association and seek to provide assistance to members following unexpected events such as droughts, hurricanes, floods, earthquakes or other extreme events. CCFs help families mitigate a crisis by funding different activities according to needs, including the purchase of supplies for the new farming season in case of crop losses, to meet household expenses or enable productive and commercial activities in case of the loss of income sources. As such, CCFs strengthen the livelihoods' resilience of the most vulnerable families.



→ Impact

- Empowerment of men and women farmers and strengthened community organizations;
- Increased access of women to productive assets, skills and services;
- Access at community level to flexible funds to organize local disaster response;
- Affected farmers have rapid access to inputs and are able to resume food production as soon as possible without having to sell assets or contracting debts;
- Capitalization of good practices for disaster risk reduction, climate change adaptation and natural resource management;
- Increased preparedness and improved capacity to respond to threats to food security and related disasters;
- Community ownership through participatory planning and decision-making on risk reduction strategies;
- Building a culture of learning-by-doing, savings, investment, responsibility, solidarity and ownership.

→ Sustainability and replicability

This practice contributes to the social, economical and environmental sustainability of the community.

To ensure ownership and sustainability of the initiative, all association members have to contribute to the capital of the funds based on jointly agreed rules and participate in income-generating activities. These activities maintain and increase the capital of the fund, reinforcing their sustainability. Such productive activities include mushroom, vegetable or poultry production, gourd seed hulling as well as farm supply and grocery stores. Since their creation, CCFs have increased by about 27 percent.

Sustainability of the funds is also ensured by encouraging members to fully engage through the participatory community-based disaster risk reduction approach; the community at risk is actively engaged in the identification, analysis, treatment, monitoring and evaluation of disaster risks in order to reduce their vulnerabilities and enhance their capacities.

FAO is implementing a similar approach in several countries in sub-Saharan Africa, where it is known as “Caisses de résilience”. The flexibility and adaptability of the approach allows it to be replicated and used in various contexts.

In both Honduras and Guatemala, women played a key role in the management of CCFs, which contributed to their empowerment and access to productive assets, skills and services.

In Guatemala, the targeted families were members of 22 farmers' associations. In Honduras, participating farming families were members of 28 rural credit banks.

Association members all contribute to the capital of the funds based on jointly agreed rules and participate in income-generating activities to maintain and increase the capital.

Thanks to its adaptability, the approach can be replicated in various contexts. In sub-Saharan Africa, FAO is implementing a similar practice, known as “Caisses de résilience”.

AN EXAMPLE OF HOW TO ESTABLISH A COMMUNITY CONTINGENCY FUND

In order to establish a CCF, the group has to mobilize at least the equivalent of USD 20 per member or to contribute (10 to 50 percent) to project input distribution. Each of the farmers' organizations elaborates an investment plan to recapitalize the CCF through income-generating activities (e.g. community shops, weave fabrics, irrigated production of vegetables, etc.). When the CCF reaches around USD 2 000 (USD 100 per member), the “compensation” intervention can be initiated. CCFs are activated when local early warning systems flag a critical situation. Compensations are defined after a damage assessment to provide the affected members with access to a special low interest sum in order to cover the cost of productive inputs (e.g. quality seeds, fertilizer) for the next season.



For more information

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“Community Contingency Funds, Saving as a means of resilience”:

- video: <https://youtu.be/-HJrFtP4JVE>
- booklet: www.fao.org/3/a-i5623e.pdf

On resilience good practices:

- KORE@fao.org
- www.fao.org/in-action/kore/good-practices/en/

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