

ABSTRACT

Being a weather - dependent activity, agriculture is carried out in a risky environment. Traditional paddy farming in Sri Lanka was based on low-cost inputs and low average returns having less chances of being wiped out or seriously damaged after being hit by natural hazards. Presently, as farmers use modern technology or high cost inputs their losses from natural hazard, would be much greater. Hence, "Insurance" has become an important strategy of risk management in agriculture. The Government launched a pilot crop insurance scheme for paddy in 1958. Further, the Agricultural Insurance Board was established and the insurance scheme was extended to the entire country in 1973. Certain policy changes in AIB took place in 1983.

The study attempted to examine the strengths and weaknesses of the present crop insurance scheme in the Matara district. The main objectives of the study were

1. to find out the risks that the state sponsored agricultural insurance scheme intended to cope with
2. to find out the extent of spread of the agricultural insurance market
3. to study the effectiveness of the present agricultural insurance scheme in helping the farmers to manage various agricultural risks and
4. to understand the factors that influence the supply of and "demand for" agricultural insurance. Four

villages were selected for the field survey based on the percentage of farmers who have insured their paddy fields.

The paddy farmers in the Matara district are experienced farmers who operate mainly as ande farmers on small holdings with an average of half a hectare. They mainly use own funds (savings) as the main source of finance while a few obtain credit for paddy farming. They are registered farmers in Agrarian Service Centers (ASC) and follow instructions given at Seasonal Meetings. Although the average yield is about 3000 kg/ha, poor field conditions and floods adversely affect the paddy yield. However, they face risk and uncertainty of the yield arising mainly due to problems of pest and disease and lack of water.

Farmers are aware of the insurance scheme and are interested of it because of the prevalence of farming risks. Only a few farmers have presently insured their crop. Most of the farmers who had insured have given up the scheme due to abandoned paddy fields and dissatisfaction with compensation coverage. According to farmers, the premium is high compared to the coverage, risk, income and the average yield of the area. The majority of the farmers have recorded the damages while a few farmers were not aware of the need for such recording at the ASC. 'Eye-Assesment' the only method

used to assess damages is very unpopular among farmers. The payment of indemnities was mostly coupled with banks credit schemes, but, were paid only during the following season. The indemnities are low compared to the premium investment and the loss.

Generally, most of the farmers have no experience with paddy insurance. They use own savings and hardly use formal credit to control damages. Mutual exchange, borrowing and crop-sharing are the common practices in the case of crop damages which do not affect their consumption levels. However, all the farmers, feel that paddy insurance is very important for small farmers to control crop damages, and to reduce risks and uncertainties in farming. Eligibility to obtain credit is another intention of a very few farmers who participate in the paddy insurance scheme.

A well developed extension service, increasing coverage, timely payment of indemnities, improving farmers knowledge and improving insurance policy, are the main suggestions made by farmers for the future. Subsidied price for inputs, credit, and improved farming practices are the suggested alternatives for paddy insurance.