

Compulsory Insurance for Paddy

The scheme for compulsory insurance for paddy on an islandwide basis came into operation recently. The period of operation is too short for an evaluation of trends; but the rationale behind the scheme is significant. Crop insurance has been in operation in Sri Lanka for a number of years, though confined to a single crop, paddy. Insurance involves the substitution of a small known cost for the possibility of a larger but uncertain loss.

On the positive side, Crop Insurance will encourage farmers to adopt improved farming methods and thereby promote agricultural production.

The importance of crop insurance may be seen in the fact that about 7% of the paddy crop is annually damaged by drought, floods, pests, disease attacks, etc. The specific way in which agricultural insurance could promote production are by encouraging the cultivation of hitherto unutilised areas; raising the cropping intensity of already cultivated lands and adoption of improved farm practices.

Crop insurance on a pilot basis was started in 1958/59 initially covering about 28,000 acres in five districts. The Department of Agrarian Services operated this scheme through its network of cultivation committees and where these were not functioning, through co-operative societies. The scheme was given a legal basis by the Crop Insurance Act No. 13 of 1961. Insurance cover was provided for crop damage arising from floods, drought, pests and diseases and animals. The area under insurance was successively extended to 200,000 acres in sixteen districts in 1965.

In the first six years the scheme functioned reasonably well. Though the agricultural development proposals 1966-70 envisaged the expansion of the scheme to cover 400,000 acres by 1970, this was suspended until remedial action on the shortcomings of the scheme was taken.

From the beginning it was envisaged that a certain element of subsidy was necessary but the actual losses

involved were too high. This was the combined effect of two factors; a high rate of indemnity payments and a low rate of premia collection as revealed in the following record of Crop Insurance for the period 1958/59 to 1973.

	<i>R. m.</i>
Premium due	16.9
Premium collected	6.4
Indemnities paid	15.9

If the scheme worked according to plan, there would have hardly been any need for a government subsidy. Adverse selection of insured areas, ineffectiveness of cultivation committees and lack of knowledge and appreciation of the value of the scheme on the part of farmers have been factors contributing to this state of affairs. Recovery through G.P.S. sales collapsed with the abandonment of the crop list system.

In view of these factors, it was felt that fresh legislation was necessary. The Agricultural Insurance Law No. 27 of 1973 set up the Agricultural Insurance Board which will be responsible for the programme hereafter. The new programme consists of three phases.

Phase I - Compulsory insurance for paddy on an island-wide basis.

Phase II - Voluntary insurance schemes for price-guaranteed crops and livestock.

Phase III - Voluntary scheme for non-traditional export crops and other subsidiary crops.

Paddy crop insurance is implemented through the Agricultural Productivity Committee/ Cultivation Committee network. The scheme is a compulsory, all-risk insurance programme. The compulsory element is thought to be necessary for several reasons. Incidence of crop failure in Sri Lanka is high and no paddy land could be considered as entirely risk-free. Under a voluntary scheme, only farmers in high risk areas may join which would mean regular large scale payments of indemnity. Moreover, farmers in major irrigation schemes which have been made 'low-risk', at public expense, have a social responsibility to share the risks of farmers in less favourable areas.

The unit of insurance under the present scheme will be each paddy tract or 'yaya' within a cultivation committee area. The present scheme combines variable premium rates with variable indemnity coverages. The premia rates determined on a risk basis range from Rs. 3 to Rs. 30 per acre. The coverage levels are also higher, varying from Rs. 300 per acre in low potential areas to Rs. 500 in high potential areas. These areas are now roughly identified with the different land classes—rainfed, minor-irrigated and major-irrigated paddy lands. The premium collection will be done in advance. Another feature is the link-up with agricultural credit and marketing under the guaranteed price scheme to ensure recovery of premia.

The compulsory scheme for paddy became operational since Yala 1975 and is continuing into the second season, Maha 1975/76. The period of operation is too short for an evaluation of trends. The approximate acreage insured during Yala is 60,000 acres which is about 10% of the total sown area in a normal Yala season. The premia collected during this season was Rs. 770,000, while indemnities paid out amounted to about Rs. 1.2 million. The largest amounts were paid out in the districts of Kalutara, Galle, Ratnapura, Kandy and Hambantota. The acreage insured and the premia collected for Maha 1975/76 respectively amounted to 118,647 acres and Rs. 1.98 million at the end of January 1976.

The area covered falls far short of the targets but the situation could be expected to improve with experience. Needless to say, the efficient operation of the scheme is highly dependent on the success of local level institutions such as Agricultural Productivity Committees and Cultivation Committees. There may be some degree of farmer resistance as they are not very familiar with the scheme. There are also gaps in basic statistics required and shortage of trained staff for a programme implemented islandwide.

The task before the Agricultural Insurance Board is a challenging one and continuous evaluation will be necessary to identify constraints to successful implementation.