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ANALYTICAL OVERVIEW OF EFFICIENCY AND GOVERNMENT POLICIES TOWARDS CROP INSURANCE IN INDIA

REVIEW ARTICLE

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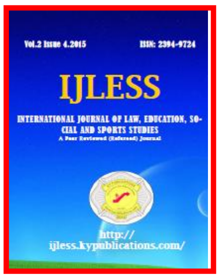

ABSTRACT

The government is running crop insurance programme in addition to the minimum support price, calamity relief fund and agriculture loan. However the crop insurance program has many policy issues from design to delivery. This research paper analysis's the various issues and methods of implementations of crop insurance. One of the major issues is adverse claims to premium. The government needs to provide huge subsidy to the insurance premium. In spite of various efforts taken by the government to widen the effect of insurance in the agriculture sector only 10% of the agriculture got insurance benefits. National Agriculture Policy released in the year 2000 highlighted that in spite of technological development the farmers are still under the unstable condition. This paper discusses the working overview of crop insurance in India in comparison with the other countries implementation. This paper analysis various issues starting from the issues involved in the agriculture followed by the need and historical development of policies towards the crop insurance ends with the private participation in the crop insurance scheme.

Keywords: Agriculture insurance, crop insurance, policy, law, issues in agriculture, agriculture economy.

INTRODUCTION

In a country like India there are many industries thriving to perform its role to increase the financial stability among the citizens. The largest of all industries is the Agriculture and allied sectors amounting to overall contribution of 17.9% to the GDP and it is declining.[i] 54% of population working in the agriculture sector among this population it is consuming 42% of the rural work force which is available in India with approximately 349 million people working directly in this sector.[ii] In the total number of agriculturists 70% of them are small and marginal farmers having less than one hectare of land.[iii] Situation being this the risk encountered by the farms are rapidly increasing such as crop failure, flood, climate changes etc. To mitigate the risk and insulate them from losses there are many schemes been announced by the Indian Government such as National Agriculture Insurance, Jute Technology Mission, Technology mission on Cotton, Livestock Insurance Scheme, Capacity Building to Enhance Competitiveness of Indian Agriculture and Registration of Organic Products, Central Assistance to State Plan Scheme on Watershed Development etc. in spite of these plans and schemes initiated by the government still there is direct effect on boosting of agriculture. Other than these central government schemes there are many schemes related to state government on agriculture.[iv]

Nearly two third of the cultivation land doesn't have irrigation facility.[v] These lands depend on the seasonal rain fall. Intensive cropping is not possible in these places. This is one of the problems in production. Even after the production the farmers have to face lot of problems such as storage, price volatility, agents etc.[vi] Loss of yield not only affects the farmers in one way but it has impact on various aspects as its impact will be there in future. It affects the sustainability of the farmers. On the one hand there are lot of efforts are taking place to mitigate the climate change on the other hand farmers are the victims of these climate changes.[vii] So far there is no possible and effective solution for this problem. This paper is focusing on what are the ways that the insurance can compensate the loss of that is arising to the farmers in both production and after production. Also it analyses hand in hand about the problems that are faced by the insurance provider to balance the argument. There are many research, reports and governmental policies towards these issues available. This article takes into consideration of those doctrinal sources to analyse the problem.

This paper is organised in a way that the first part deals with the introductory concepts and identifies the major risk involved in the agriculture. The second part explains the crop insurance and its need. The third part deals with the evolution of crop insurance in India and the private participation in the insurance. The fourth part summarises the conclusion with current scenario in a futuristic approach.

ISSUES INVOLVED IN THE AGRICULTURE

Agriculture is one of vulnerable sectors that is affected by various risks from sowing to market such as Production Risk[viii], Price or Market Risk, Financial and Credit Risk, Institutional Risk, Human or Personal Risk, Legal / Policy Risk, Resource Risk, Health Risks, Assets Risks, Technology Risk etc. nevertheless there is no explanation is needed for these risks because the thing speaks for itself. Though there are many issues involved in the sector for the précises study it will be dealing with the following three issues. Invariably all the risks will result in financial loss. Circumstantially it render the farmers financial unsustainable. The risk of crop failure in a given year will not only have the effect on financial statues it also affects the social status of a farmer. In case of a farmer who got loan for the cultivation will be thrown into the financial crisis. The financial institution will get into the credit risk. This credit risk again fall on the Indian economy on the whole.[ix] This is a cyclic reaction were the crop failure is not a unilateral phenomenon it is a social deflation. To remove this chain of cyclic reaction it is mandatory that the government support is must in all the risk that can arise to a farmer. The World Trade Organisation (WTO) in the year 1994 it emphasised in developing rules for crop insurance subject is enshrined under the Makarrech Agreement[x]

Over a period of time farmers themself developed a community risk mitigating strategies. It has two fold measures they are ex-ante and ex-post, the first one is a risk reduction method and the later one is for risk coping method.[xi] When it comes to agriculture as an industry neither of these two measures are working and yielding the good results.[xii] The main reason for the failure of these strategies is that the industrialisation has disintegrated the farmers and the companies have introduced the competition in this sector for their beneficial market gain. These two changes were started swindling the team work of the farmers and it impacted on the output especially the small farmers were the most affected in this sector. Now the ex-ante protection is almost not possible as the reason has stated already. The ex-ante strategy has two aspects they are individual and group processes. Individual process includes preventive measures like avoiding the exposure to risk, crop diversification, inter cropping, buffer stock accumulation etc. The group process includes crop sharing, sharing instruments, informal risk pool etc. the group process involves the support by the community farmers who intends to unit for the general benefit. Whereas, in the individual process it depends on the sustainability of the individual. It is not effective in case of small scale farmers who need external support.[xiii]

The social imbalance created by the economic growth in terms of GDP growth. The agriculture sector in India grew at the rate of 4.6% in 2008-09 while the Indian economy grew at the rate of 6.7%.[xiv] The unequal per capita income between the urban and rural is drastically increasing.[xv] Average income of the person living in the urban area is four times higher than the person living in the rural area.[xvi] The main reason for this under performance is the fact that rural population is mostly depends on agriculture as their major source of income. The gap is not going to be rectified until the above said issues are resolved.

NEED FOR CROP INSURANCE

The two risks that cannot be controlled by the farmers are crop failure and the price fluctuation. The price fluctuation is secured by the Minimum Support Price (MSP) and the crop failure risk is supported by the insurance. There are many risks involved in the crop failure such as climate, monsoon, rain fall, pests, natural calamity etc. All the risk involves damage to the crop ultimately it affects the farmers.[xvii] Since the industrialisation given a boost to the agriculture sector, the money spent on the cultivation should be considered as an investments and it must be protected. Agriculture insurance management involves high cost. A government can undertake two fold activities to prevent the challenges faced by the agriculture industry. The first fold of protection is given through the subsidies as it is effective on mitigating the losses that may arise in post-production. The second fold is through the insurance as it prevents and insulates the losses that may arise in pre-production.

There are two things should be taken care of i.e. mitigating the losses and compensating the losses. The first one is prevention and later is protection. Despite of advancements in the technology and economy, still the farmers are in unstable condition.[xviii] Unfortunately, it is the one of the factors behind farmers' suicides which is now increasing. Agriculture insurance is a method which can be used to stabilise the farmers.[xix] This will give them the assurance of sustainability so that they will invest more in the agriculture. However the insurance could not be an overall cure for the farmers it needs to be implemented with all other schemes. The insurance is the end point protection it gives leverage to the farmers in case of any loss. In contrary it is the only relief for the small and mid-scale farmers from harm.[xx]

One drought for a year will wipe out the entire generation of farming. There is a risk always attached with the agriculture i.e. one crop failure will gives devastating results.[xxi]declaim in product price is on the other hand it will not render the entire thing in vain but it affects the financial liquidity of the farmers ultimately resulting in reduction in cyclic investment.[xxii] It is the public policy derivatives that a government have to fight for the farmers to prevent as well as to protect from losses.

CROP INSURANCE

The local subsidies has been divided into three aspects under the WTO they are amber box, Blue box and Green box.[xxiii] There are many countries provide green box protection to the agriculture. In USA it is 70% subsidies given by the government to support the industry so it comes under the amber box. However in India it comes under the green box as the subsidy is 10%. It is obvious that country like India should get more subsidy to the agriculture as it is amounting to Rs. 6426 per month per capita income of the farmer.[xxiv] There are many countries provide crop insurance in two ways one is directly from the state and central government, the other is under the government and private partnership. In all insurance schemes the government's intervention and support is inevitable.[xxv]

There are various companies are providing crop insurance most of them are seasonal or crop specified insurances. It covers only the season or the crop specified in the policy with annual premium payment. India has the largest crop insurance covering around 25 million farmers.[xxvi]In contrary backing for this insurance scheme needs through politics, policy clear data in insurance and implementation.[xxvii] In the USA apart from the Federal Crop Insurance Corporation (FCIC) which is run by the government there are various private insurers also playing a vital role in crop insurance. They take part in providing crop insurance as underwriters and reinsurers. Similarly Spain has a combination insurance system in which agriculture risks are covered by the private insurers with government subsidised premium rates. In Spain the farmers will be getting three folds of cover from Agricultural Ministry, co-insurance pool by private entities and public enterprises as re-insurer. In this protection mainly the government fixes the subsidy and the private participants will decide on the premium rates. Spin is have little clumsy in fixing the premium rates by the private participants in the crop insurance.

The crop insurance by the government is failure worldwide. Irrespective of the strong scheme in India to provide a better insurance to the farmers it is failed because of the offer said reasons.

EVOLUTION OF CROP INSURANCE

In India, the evolution of crop insurance started with a concept paper written by a scientist in 1920.[xxviii] It is the first milestone for the agriculture insurance in India. The post-independence era has witnessed much wider schemes in the agriculture insurance. It was started with the individual approach depending upon the crop and the farmer. The protection was given based on the non-risky or less risky crop such as H4 Cotton in Gujarat.[xxix] If a farmer wants to protect his crop he has to apply based on the type of crop. This was the situation till 1978.[xxx] After 1978 since the failure of the individual crop insurance the homogeneous area insurance was introduced to the farmers but that too it protects only particular plant varieties such as oilseeds, cotton and potato. These plants which are protected under the homogeneous scheme not yielded a good result as expected.[xxxi] The next phase of development happened as Comprehensive Crop Insurance Scheme (CCIS) in 1980s. It is not limited to the crop and to area, it made compulsory that every farmer who has taken the loan has to take this insurance policy. This scheme has been implemented in 16 States and two Union Territories covered nearly seven crore farmers.[xxxii] The National Agricultural Insurance Scheme (NAIS) replaced the CCIS in 1999 – 2000 with the hope of providing a better insurance scheme for the farmers. But there are very many drawbacks that set this insurance scheme under the least hope of success.[xxxiii] Some of the factors such as the lack of data on previous year yield failure led to presumptions, it needs a bank account to join with this scheme, extending the 100 % premium to 150 % loss is not manageable by the government etc. rendered this scheme as inoperable and inefficient.

PRIVATE PARTICIPATION

The private insurance schemes have to handle many problems such as credit loss, competition with the government subsidised insurance schemes, competition among the insurance companies etc. the co-existence of the private and government insurance is not possible because of the subsidy for the government insurance schemes and the availability of the machineries to administer the insurance schemes. So the co-existence is not possible, in contrary, private and public partnership in the agriculture insurance delivers a good result. The private participation in the agriculture insurance has two folds according to the risk sharing. One is the insurance company provides the insurance and It is the insurance companies that suffer loss by virtue of the claim made by the insurance holders as it is well above the 100% of premium paid by them. In these cases were the government insulates the losses of insurance companies, so that they will operate with confidence. Combination of private and public insurance scheme in USA and Spain; efficient structured mutual insurance scheme in Netherland are the best examples for the crop insurance.[xxxiv]It is more reliable to have private and public partnership in providing insurance. It allows the insurance companies to share the risk between public and private insurance corporations.US and Spanish insurance provides a best example for such private and public partnership insurance. Without the incentive from the government to private insurance companies it is impossible to create a level playing field in the agriculture sector. It is necessary for the government to reduce the risk of credit losses to the private insurance companies.

Currently in India it is the implementing agency model. In this implementation model the private insurance companies only act as an implementation agencies they bear no risk or loss. Every risk is taken care by the government itself. At the same time the private insurance companies earn no return by implementing the insurance scheme. The premium for these insurance are very high so it requires huge subsidy from the government. It is very easy to manage the agriculture insurance in collaboration with the government because of the subsidies provided to the insurance companies.

CONCLUDING REMARK

The agriculture insurance has grown significantly over the past 3 decades and now it becomes the integral part of the many domestic support programs of the government. At the same time the reach of this policy is very meagre and slow in progress among the farmers. There are number of issues involved in the crop insurance. Insurance and the financial support of the government is the only solution to overcome these issues. As it is discussed above there are many ways of implementing the crop insurance, the policy of the government that decides the effectiveness of the crop insurance schemes in India. The forgoing discussion has identified various constrains in which the policy and law of insurance should look into. This article gives the chance to research further on the issue to overcome the identified legal and policy constraints for the future researchers in this field. In a society where the vast majority is small and marginal farmers doing agriculture needs full swinging crop insurance which targets these farmers. There should be wider publicity for the crop insurance schemes. The insurance should cooperate with the farmers who has weak infrastructure. Only when the policy and the law towards the implementation of the crop insurance changes will gives the fruitful result to the farmers.

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