Session 2.
Set of Policy Recommendations

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Fundamental problem: risk in agriculture

- Weather a grave concern in Asia, especially in Southeast Asia.
- Three AMS (Myanmar, Philippines, Vietnam) listed as among the worst affected countries worldwide by extreme weather events over a 20-year period (1998-2017): Thailand ranked 10th worst-affected country worldwide in 2017
- Disasters have had catastrophic impacts on domestic agriculture
- Worldwide, agriculture is highly vulnerable to risk, both from climate events, to other natural disasters (volcanic eruption, tsunami), and infestation by pest and disease

Reducing risk for the farmer through insurance

- Crop insurance as a risk transfer mechanism can help lessen the losses of agricultural producers.
- Indemnity paid by the insurer to the farmer – to recover loss in income – social protection
- May facilitate recovery of farming activities of the insured, after the fact (ex post)
- Encourages lenders to provide loans for farming activities, at or before planting (ex ante)

Crop insurance: brief history

- Insurance products: offered by free market offering in many countries - property damage, personal injury, illness, or death
- However, a free market approach has rarely worked in the case of traditional, indemnity-based crop insurance.
- Historically: government intervention was usually required in order to expand and sustain crop insurance.
- Worldwide, since 1986, premium volumes has increased on average by 8 percent annually up to 2004; accelerating to double that between 2004 and 2013

Overview of crop insurance in AMS

- No programme: Brunei Darussalam, Lao PDR, Singapore
- Preparation phase:
  - Cambodia (implemented a pilot project)
  - Malaysia and Myanmar (in preparation for pilot project)
- Implementing an established crop insurance programme:
  - Indonesia
  - Philippines
  - Thailand
  - Vietnam.

Pilot programs

Cambodia

- initiated in 2015 by Forte, a private insurer.
  - Weather-indexed insurance
  - Privately subsidised, reached 60 farmers
  - In 2017: 2nd pilot, charging a premium but still at a low rate
  - In partnership with RIICE. Uptake remained low: 200 farmers
- Also in 2015: the Cambodian Center for Study and Development in Agriculture (CEDAC) implemented a two-year pilot project
  - Stopped due to lack of funding and lack of awareness of farmers
  - 48 farmers out of a total 157 members made claims.

Pilot programs

- *Malaysia*:
  - Fire insurance for plantations has been available for a long time
  - Insurance for other types of peril other crops remains unavailable
  - The government planning to introduce a crop insurance programme.
- *Myanmar*: consultations were conducted in late 2018 organised by the Myanmar Agriculture Network, under the Grow Asia Country Partnership

Indonesia

- Government insurance programme, covers paddy
- Indemnity-based, multiple peril (pest, disease, other natural disasters)
- Cover: equivalent of up to USD 448 per ha
- Premium: USD 13 per ha, of which only one-fifth is paid by the farmer, and the rest by the government.
- As of April 2017, the state programme covered 600,000 farmers (4 percent of target 15 million)
- Total claims amount to USD 5 million, equivalent to a 64 percent loss ratio. (Nughara, 2017).

Philippines

- Implemented by Philippine Crop Insurance Corporation (PCIC)
- Regular programmes:
  - paddy rice and corn (subsidised); high value crops; livestock; fisheries and aquaculture; non-crop insurance
  - Coverage: cost of production inputs, up to a ceiling amount per ha.
  - Premium: is a percentage of the cover, adjusted based on the perils covered and risk profile of the farmer
- Special programmes: 100 percent subsidies
  - Largest by far is the Registry System for Basic Sectors in Agriculture (RSBSA)
  - Targeted at subsistence farmers and fisherfolk listed in the registry.
- In 2017: PCIC made a total of Php 1,936,897 in pay-outs. It collected Php364,961 in premiums, for a loss ratio of 58 percent.

Thailand

- National Rice Insurance Programme, begun in 2011.
- The programme provides a pay-out of THB 1,111 per rai (THB 6,944 per ha) for natural disasters, or about 25 percent of average production cost.
- Farmers pay a premium THB 625 per ha under 50% government subsidy
- By end-2016, 1.57 million farmers planting 4.4 million ha participated in the scheme (corresponding to 22 percent of rice farmers and 47 percent of harvested area). In 2015, its premiums reached THB 500 billion, with a loss ratio of just 30.8 percent.

Vietnam

- Government implemented a pilot agricultural insurance programme in 2011-13 in partnership with private companies and other stakeholders.
- Implemented in 20 provinces with targeted subsidy, i.e. 100 percent for poor households, 80 percent of the near poor, and 60 percent for other households.
- area-yield indexed insurance covering crops, as well as livestock and aquaculture.
- Reached 304,016 households: 77% poor
- Indemnities equalled VND 701.8 billion. premiums collected: VND 394 billion; loss ratio of 178 percent. For rice, the loss ratio was only 21 percent (Dang et al, 2017).
- Following implementation: agricultural insurance policy was established by law, i.e. Decree No. 58/2018.

Assessment

- In terms of 10 Phases: The AMS are in different phases of launching a nationwide crop insurance program.
- The four AMS with established crop insurance programmes have already completed all ten phases
- Cambodia is in the first eight phases; Malaysia and Myanmar is only in Phase 1;
- Brunei, Lao PDR, Singapore have yet to initiate the phases (though Brunei is likely to find crop insurance infeasible. Singapore has no significant crop production).

Assessment

- Efficient implementation of a crop insurance program requires considerable amounts of data and information for proper design
- There exists a trade-off between level of subsidy and degree of insurance penetration of crop farmers.
- Lack of clarity of rules, and misallocation of roles between private and public sector actors, can reduce the effectiveness of crop insurance.
- A nationwide launch of crop insurance should initially focus on staples and a few major crops, while incrementally expanding crop coverage.

Assessment

- Alternative methods of loss estimation have their respective advantages and disadvantages; though new technologies are most promising for increasing programme efficiency.
  - Vietnam: is area-yield index-based; Indonesia is indemnity-based; also Thailand indemnity-based, though in the latter, declaration of state of calamity is required to trigger pay-outs. Philippines largely indemnity-based.
  - The index-based approaches did tend to reduce administrative cost, and makes it possible to achieve high penetration rates among smallholders (for whom transaction cost may otherwise be prohibitive).
  - Vietnam experience: basis risk made the insurance product somewhat unpopular among farmers

Assessment

- Pricing structure and other features can be designed to ensure efficient utilisation of the insurance subsidy.
- An effective crop insurance program is one that invests heavily in socialisation of farmers, ensuring that agents are well-versed in the product being marketed.
- Protection of the poor is increased by targeting of crop insurance subsidy.
  - Among the established crop insurance programs, government was found to cover an average of 55-80% of the premium
  - In the Philippines and Vietnam, farmers from the poorest group were given a 100% subsidy.
  - Targeted subsidies together with means testing is helpful in extending social protection to the marginalised group

Recommendations

- Firm up state policy the size of the annual subsidy for crop insurance, recognising that crop insurance may be a viable social protection mechanism that facilitates credit coverage and provides alternative disaster financing assistance to farmers.
- Establish data collection systems and studies related to weather, loss patterns, and behaviour of farmers in managing agricultural risk.
- Explore index-based insurance to cover smallholder farmers.

Recommendations

- Adopt a phased introduction of insurance products, beginning from those easily designed, to those with more complex design requirements.
- When delivering crop insurance with private sector partners, ensure transparency of regulations and clarity of roles.
- Introduce pricing structure that aligns premiums with expected costs.
- Adopt targeted subsidy favouring poorest and most vulnerable smallholders.
- Roll out the scaled up programme deploying well-trained agents to conduct socialisation of intended beneficiaries.
- Invest in a strong monitoring and evaluation (M&E) system for feedback and continuing revision of the program.

Thank you!

Additional slide

	KH	LA	IDO	MA	MY	PH	TH	VN
Subsidy policy	*	x	+	x	x	+	+	*
Data collection systems and studies	*	x	*	x	x	*	*	*
Explore index-based insurance	*	x	*	x	x	+	+	+
Phased introduction	*	x	*	x	x	+	*	*
Clarity of roles re private insurer	*	x	*	x	x	+	+	*
Pricing structure	*	x	*	x	x	+	+	*
Targeted subsidy	*	x	*	x	x	+	*	+
Socialisation of farmers	*	x	*	x	x	*	*	*
M&E system	*	x	*	x	x	*	*	*

* - for action or strengthening

x - for consideration after pilot program

+ - implemented