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FACETS OF AGRICULTURAL INSURANCE AND ITS MULTI-DIMENTIONAL IMPACT ON THE FARMING SECTOR IN ODISHA

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Abstract

Agricultural Insurance is a means of protecting the agriculturist against financial losses due to uncertainties that may arise agricultural losses arising from named or all unforeseen perils beyond their control. Unfortunately, agricultural insurance in the state has not made much headway even though the need to protect odisha farmers from agriculture variability has been a continuing concern of agriculture policy. The farming community in odisha consists of about 2.5 million farmers of which only about 10 per cent avail crop loans from financial institutions and only three fourth of those are insured. The remaining 80 per cent are either self-financing or depend upon informal sources for their financial requirements. Most of the farmers are illiterate and do not understand the procedural and other requirements of formal financial institutions and, therefore, shy away from them. Therefore, while the institutional loanees are insured compulsorily under the NAIS, only about 15 per cent of the non-loanee farmers avail insurance cover voluntarily. This is quite indicative of the enormous insurance potential that exists for addressing the needs of the farming community and enhancing the overall efficiencies as also the competitiveness of the agriculture sector. This also signifies the tremendous potential of agriculture insurance in odisha as a concept, which can mitigate the adverse impacts that such uncertainties would have on the individual farmers.

INTRODUCTION

Agriculture production and farm incomes in odisha as well as India are frequently affected by natural disasters such as droughts, floods, cyclones, storms, landslides and earthquakes. Susceptibility of agriculture to these disasters is compounded by the outbreak of Epidemics and man-made disasters such as fire, sale of spurious seeds, fertilizers and Pesticides, price crashes etc. All these events severely affect farmers through loss in Production and farm income, and they are beyond the control of the farmers. With the growing commercialization of agriculture, the magnitude of loss due to unfavorable losses. For a section of farming community, the minimum support prices for certain crops Provide a measure of income stability. But most of the crops and in most of the states MSP is not implemented. In recent times, mechanisms like contract farming and future trading have been established which are expected to provide some insurance against price fluctuations directly or indirectly. But, agricultural insurance is considered an important mechanism to effectively address the risk to output and income resulting from various natural and manmade events. Agricultural insurance is a means of protecting farmer against financial losses due to uncertainties from named or all unforeseen perils beyond their control.

Despite economic advancements, the condition of farmers continues to be unstable due to natural calamities and price fluctuations". In some extreme cases, these unfavourable events become one of the factors leading to farmers "suicides which are now assuming serious proportions agricultural insurance is one method by which farmers can stabilize farm income and investment and guard against disastrous effect of losses due to natural hazards or low market prices. Crop insurance not only stabilizes the farm income but also helps the farmers to initiate production activity after a bad agricultural year. It cushions the shock of crop losses by providing farmers with a minimum amount of protection. It spreads the crop losses over space and time and helps farmers make more investments in agriculture. It forms an important component of safety-net programmes as is being experienced in many developed countries. However, one need to keep in mind that crop insurance should be part of overall risk management strategy. Insurance comes towards the end of risk management process. There are two major categories of agricultural insurance: single and multi-peril coverage. Single peril coverage offers protection from single hazard while multiple –Peril provides protection from several hazards. In odisha, multi-peril crop insurance programmed is being implemented, considering the overwhelming impact of

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nature on agricultural output and its disastrous consequences on the society, in general, and farmers, in particular.

Features of NAIS:

National Agricultural Insurance scheme provide financial support to the farmers in the event of failure of any of the notified crop as a result of natural calamities, pests and diseases. It encourages farmers to adopt progressive farming practices, high value inputs and higher technology in agriculture. It helps to stabilize farm incomes, particularly in disaster years.

- (i) *Crop Covered:* Food crops, oil seeds, sugarcane, cotton and potato are insured subject to availability of past yield data. However, the list of crops is to be spelt before the close of preceding year.
- (ii) *Farmers to be covered:* All farmers including sharecroppers, tenant farmers growing notified crops in the notified areas are eligible for coverage. All loanee farmers are compulsorily covered under the same and non-loanee farmers are covered on a voluntary basis.
- (iii) *Risk Covered:* It cover yield losses due to natural fire, lightening, storm, hailstorm, cyclone, typhoon, tempest, hurricane, tornado, flood, inundation, landslide, drought, dry spells, pests and diseases etc. But it does not cover preventive risks like war, malicious damage, nuclear risks etc.
- (iv) *Premium & Premium Subsidy:* Premium rates vary according to crops and seasons. For examples, in kharif season for Bajra and oil seeds premium rate is 3.5% of sum insured or Actuarial rate, whichever is less, but for cereals, pulses it is 2.5% of sum insured, for wheat it is 1.5% of sum insured. 50% subsidy in premium s allowed for small and marginal farmers which are shared by Govt. Of India and State/U.T. Govt.
- (v) *Area Approach and Unit of Insurance:* The NAIS is operated on the basis of “Area Approach”. The area may be GramPanchayat, Mandal, Hobli, Circle, Phirka, Block, Taluka etc. Agricultural Insurance on individual basis is difficult to implement.
- (vi) *Nature of Coverage and Indemnity:* When “Actual Yield” fall short from “Threshold Yield” all the insured farmers of that locality are deem to suffer loss.

“Threshold Yield” means guaranteed yield for a crop which is calculated on the basis of moving average of past three years for rice and wheat and five years for other crops multiplied by the levels of indemnity. Indemnity may 90%, 80%, 60% corresponding to low risk, medium risk and high risk areas, bas on coefficient of variation in yield of past 10 years data.

Indemnity = (Short fall in yield/ Threshold yield) × Sum Insured for the farmer

[Short fall = Threshold yield — Actual yield for the Defined Area]

- (vii) *Settlement of Claims:* Once “Yield data” is received by state/ U.T. Govt as per the prescribed cut-off dates claims are settled by implementing agency. The claim cheques along with claim particulars are credited to individual farmers and particulars are displayed on the notice board.

Need for Agricultural Insurance:

Agriculture production and farm incomes in odisha are frequently affected by natural disasters such as droughts, floods, cyclones, storms, Susceptibility of agriculture to these disasters is compounded by the outbreak of epidemics and man-made disasters such as fire, sale of spurious seeds, fertilizers and pesticides, price crashes etc. All these events severely affect farmers through loss in production and farm income, and they are beyond the control of the farmers. With the growing commercialization of agriculture, the magnitude of loss due to unfavorable eventualities is increasing. Agricultural insurance is one method by which farmers can stabilize farm income and investment and guard against disastrous effect of losses due to natural hazards or low market prices. Crop insurance not only stabilizes the farm income but also helps the farmers to initiate production activity after a bad agricultural year. It cushions the shock of crop losses by providing farmers with a minimum amount of protection. It spreads the crop losses over space and time and helps farmers make more investments in agriculture.



OBJECTIVES OF THE STUDY

1. To examine the performance of the existing and earlier national agricultural Insurance schemes implemented in India.
2. To discuss and explore the problems and prospects of agriculture insurance in Odisha.
3. To suggest effective agriculture insurance programmed in odisha.
4. To examine the important features, trend and performance of National Agricultural Insurance Scheme.

SIGNIFICANCE OF THE STUDY

The present study is significant for potential beneficiaries from those villages which have not much awareness of crop insurance scheme. It will also helpful to small and marginal farmers to protect their interest in crop against natural calamities and getting benefits under this scheme. It will also assist the insurers, bankers & policy makers for policy prescription & policy intervention.

METHODOLOGY

The case study method has been used in this paper. It is mainly dependent on secondary data but supplemented by the discussion with some officials of banks, insurance companies, academicians & some farmers.

Views of Social thinkers

Dr. Gulseven stated that although the agricultural insurance system in US is well-developed compared to EU, it has serious drawbacks. There is a huge gap between the buyer and seller prices in the currently implemented mechanisms. The difference between the prices farmers like to pay for insurance and the breakeven price offered by insurance companies is financed by means of government subsidies. Therefore the self-sustainability of this scheme without government aids is questionable.

In the absence of formal risk sharing / diffusion mechanisms, farmers rely on traditional modes and methods to deal with production risk in agriculture. Many cropping strategies and farming practices have been adopted in the absence of crop insurance for stabilizing crop revenue. Availability and effectiveness of these risk management strategies or insurance surrogates depend on public policies and demand for crop insurance (Walker and Jodha 1986).

Crop insurance protects farmers' investment in crop production and thus improves their risk bearing capacity. Crop insurance facilitates adoption of improved technologies, encourages higher investment resulting in higher agricultural production.

Crop credit insurance also reduces the risk of becoming defaulter of institutional credit. The reimbursement of indemnities in the case of crop failure enables the farmer to repay his debts and thus, his credit line with the formal financial institutions is maintained intact (Hazell *et al.*, 1986; Pomareda 1986; Mishra 1996).

ANALYSIS OF THE DATA

Table 1. Year Wise Details of Insurance Coverage in Odisha

Year	Farmers covered (%)	Area covered (%)
2000-2001	9.08	8.73
2001-2002	9.23	8.42
2002-2003	10.48	11.12
2003-2004	10.73	9.88
2004-2005	14.04	15.53
2005-2006	14.45	14.56
2006-2007	15.51	14.32
2007-2008	15.95	14.58



Table 2. Comparative Scenario of Agro Insurance in Odisha

Scheme	Crops covered	Farmers covered	Premium	Claim
Crop insurance	Cotton ,nut ,wheat, potato	0.03lakh	0.05cr	0.38 cr
Pilot crop insurance	Cereals millets, oil seeds, cotton potato.	6.23 lakh	1.95 cr	1.56 cr
Comprehensive crop insurance	Food grain ,Oil seeds	763	404	2303
National agricultural insurance	Food Crops	1155	3628	11607
Farm income insurance	Wheat, Rice	2.22	15.68	1.5
Weather based crop	Food Crops	1.4	3.5	Nil

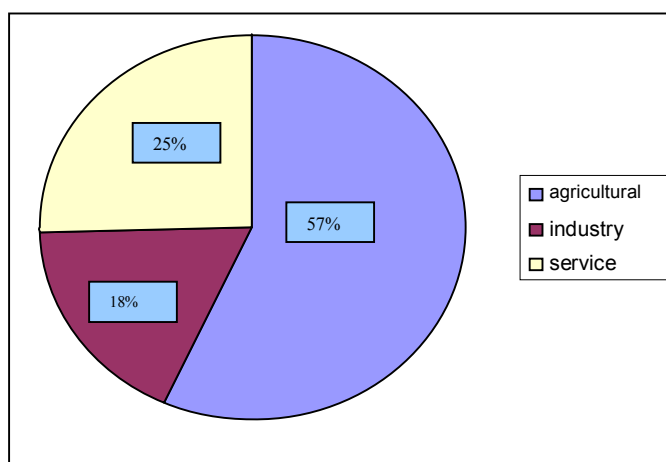


Figure 1. Composition of Indian Economy

Suggestions:

1. Agricultural insurance is not a complete solution to agricultural risk
2. Public sector roles are critical for sustainable scale-up
3. Farmers want reliable protection
4. Weather index insurance does not offer reliable protection for farmers
5. We need better claim payment rules, and mutuality.
6. Don't believe stories, believe data.
7. Offer reliable products, and innovate behind the scenes

CONCLUSION

In Odisha farmers face twin problem of very low productivity accompanied by high risk of production. As, with the passage of time, neither technology nor any other variable helped in reducing production risk, particularly in low productivity states, there is strong need to devise and extend insurance products to agricultural production.

Government can facilitate agricultural insurance in several ways. In case farmers are asked to pay full premium themselves then chances of adoption of insurance are bleak. There is a need for some subsidization by



government. It can provide information, on weather patterns, locations of farms and crops, incidence and history of perils and crop yields. It can help to meet the costs of the research to be undertaken before starting an agricultural insurance program. It can also provide reinsurance.

As many small and marginal farmers could not participate in the crop insurance scheme because a majority of these farms have poor access to institutional credit, the unit of insurance is very large and also lack of awareness among the farmers about the crop insurance scheme.

As the agricultural insurance is beset with so many problems, the following issues are to be addressed through this study.

he NAIS work as an instrument for the development in the field of crop production, providing financial support to the farmers in the event of crop failure. It also encourages farmers to adopt progressive farming practices and higher technology in agriculture. Besides above, it also ensures smooth flow of agricultural credits to farmers. Country is benefited by increasing production, generation of employment and economic growth.

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