



**Fiscal Policy Agency
Ministry of Finance of
the Republic of Indonesia**



Agriculture Insurance in Indonesia – Opportunities and Challenges

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The Impact of Climate Change to Agriculture Sector

1. Agriculture is one business that is vulnerable to the negative impacts of climate change
2. Decline in food production due to rainfall changes in 2050 compared with the current state is estimated as follows : rice (-4.6 %) , maize (-20 %) , soybeans (-65.2 %) , sugar (-17.1 %) and palm oil (-21.4 %) .
3. Decline in investment in the region caused by the temperature rise by 2050 is expected to reach 3.3 % in Java and outside Java 4.1 % of the total rice production area at this time .
4. Reduced productivity due to early maturation reached about 18.6 % to 31.4 % in Java and about 20.5 % outside of Java .
5. Decreased productivity , including rice , caused by an increase in temperature which affects the respiration rate of plants is estimated at 19.94 % in Central Java , 18.2 % in DI Yogyakarta , and 10.5 % in West Java , also 11.7 % outside Java and Bali (Handoko et al , 2008.)



Agriculture Insurance, Why We need?

1. Food crops sector plays a significant role in line with the increasing population and food demand;
2. To fulfill the domestic food demand with stabilized price is very important from supply and demand side. Increase the domestic food production is a must;
3. One of the threats to domestic food production is climate change (precipitation and extreme drought) so that the protection for rice farming is necessary;
4. One of the main efforts to reduce the risks faced by the farmers is through the introduction of agriculture insurance which in the early stages is given to paddy farmers (rice farm insurance)



Agriculture Insurance and Government Development Agenda

- Indonesia has targeted to achieve 2014 self-supporting food commodities by increasing 6% food productions per year.
- Five targeted self-supporting food commodities are: rice, maize, soybean, sugar, and meat.
- Indonesia also has targeted to achieve 10 million tons rice production surplus in 2014.
- To support the target, Indonesia will allocate Rp 300 billions (approx. US\$ 30 millions) in 2014 budget for agriculture insurance. It is used to cover the insurance fee for 2 million ha of rice farming.

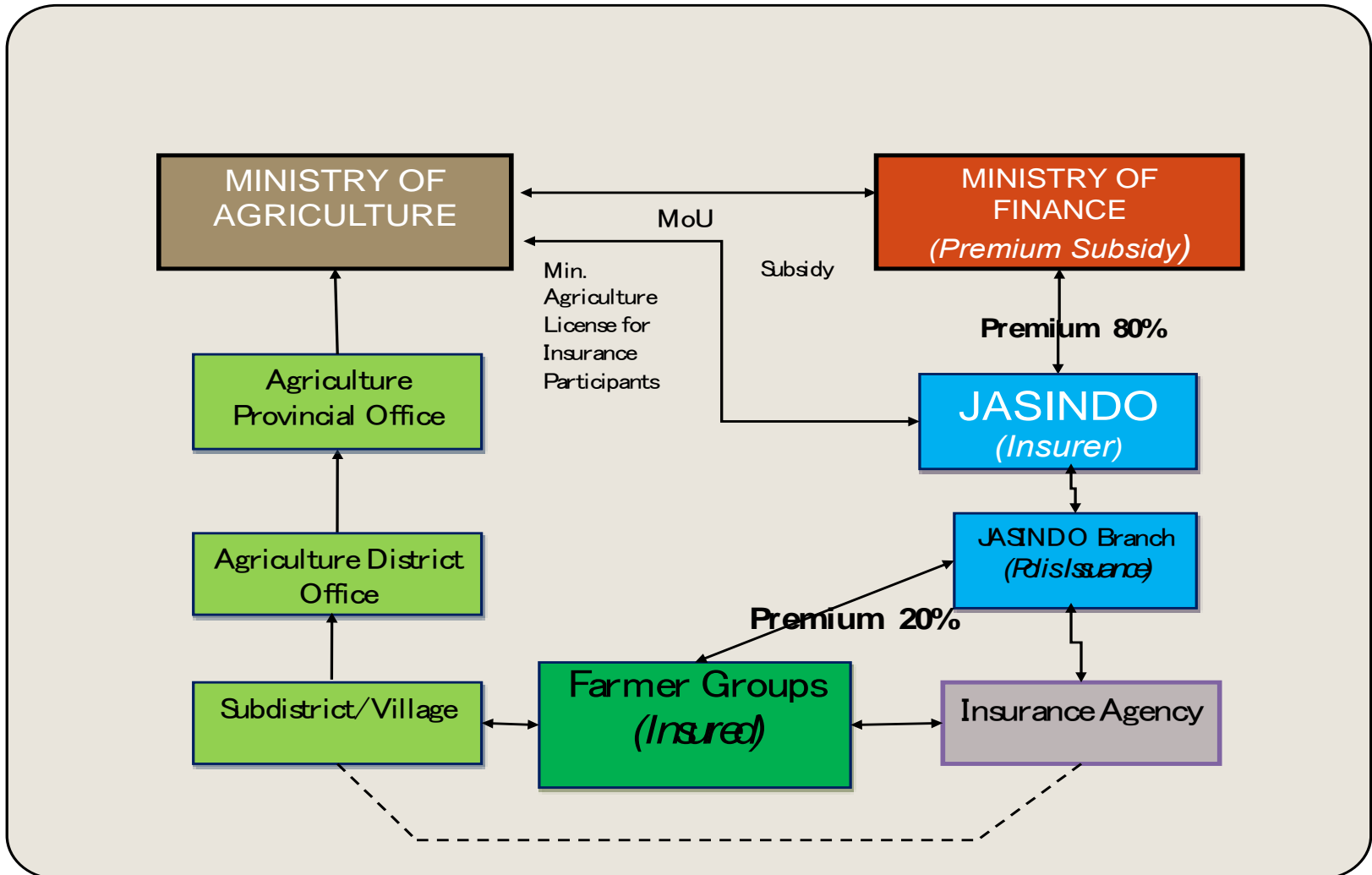


The Legal Basis of the Agriculture Insurance

- The legal basis of the agriculture insurance activities is ***the Farmer Protection and Empowerment Act or FPE Act*** (Law No. 19/2013) which was ratified on July 9, 2013
- Article 37 of FPEA states that:
 - Government and Local Government in accordance with their authority are obliged to protect farming activities in the form of Agriculture Insurance;
 - Agriculture insurance is established to protect farmers from crop failure losses caused by:
 - a. natural disasters;
 - b. plant pests attacks;
 - c. outbreaks of infectious animal diseases;
 - d. impacts of climate change, and / or
 - e. other types of risks set by regulation
- The technical guidance on the implementation of agriculture insurance is under way



Agriculture Insurance Scheme





Pilot Projects Implementation

1. The Ministry of Agriculture has implemented several pilot projects of agriculture insurance (rice farming). One of them, a pilot project for the planting season October 2012-March 2013 in 3 provinces (West Java, East Java and Central Java) with trials in each province, covering an area of 1,000 ha of rice fields (total 3,000 ha);
2. The insurance fee and claim is based on the rice production cost. The fee or premium is shared between the government and the farmers.
 - Assuming the production cost of paddy per ha around Rp.6 million (US\$ 600), the 3% premium to be paid by farmers to the insurance company (Jasindo) amounting to Rp.180,000 or US\$ 18.
 - In the pilot project, farmers are required to pay a premium of Rp.36,000 (20% of the premium) and the rest Rp.144,000 (80% of premiums) paid by the Government (PT Fertilizer).
 - In the occurrence of *puso* (crops failure), the farmers are entitled to compensation for Rp.6 million/ha which can be used to replant the rice in the next planting season.



Pilot Projects Implementation (2)

LOCATION	WIDTH Ha	AGGR. P.C. (Rp) (Width X Rp.6 Million)	PREMIUM		
			TOTAL (Rp)	Paid by Govt. 80% (Rp)	Paid by FARMERS 20% (Rp)
Karawang, WEST JAVA	0	0	0	0	0
Tuban, Gresik, EAST JAVA	470.87	2.825.220.000	84.756.600	67.805.280	16.951.320
OKU Timur, SOUTH SUMATERA	152.25	913.500.000	27.405.000	21.924.000	5.810.000
TOTAL	623.12	3.738.720.000	112.161.600	89.729.280	22.432.320



Pilot Projects Implementation (3)

LOCATION	PREMIUMS	FAILURE (Ha)	LOSS (Rp)	LOSS RATIO
Karawang, WEST JAVA	-	-	-	-
Tuban, Gresik, EAST JAVA	84.756.600	80	480.000.000	566.32%
OKU Timur, SUMSEL	27.405.000	7.28	43.680.000	156.38%
TOTAL	112.161.600	87.28	523.680.000	466.89%

Lessons Learnt from the Pilot Projects

- 13% of rice farming land faced crops failure showing significant impact of natural disaster
- The premium and claim report and payment mechanism is workable with less time consuming when filing the claim and receiving the payment
 - The role of local government is important to speed up the claim process
- The loss ratio is very high especially in East Java area (467%)
 - The insurer recorded loss more than four times than the premium received
- It requires some considerations and improvements in final insurance model and claim procedures when implementing in different areas (more than 500 districts) with wider customers



Expansion of Agriculture Insurance Pilot Projects

1. In the planting season of October 2013-March 2014, the activities of agriculture insurance pilot project will be replicated in wider scope, 1,500 ha in two districts in East Java.
2. **JICA** supports this pilot project through '*The Capacity Development for Climate Change Strategies in Indonesia*';
3. The preparation including coordination meetings are under way involving the Provincial and District Government (Gresik and Ngawi)



Local Government Role

1. Referring to the FPE Act, the participation of local governments in the implementation of agricultural insurance will be as follows:
 - a. Ease of participant registration
 - b. Ease of access to insurance company
 - c. Insurance program socialization for farmers and insurance companies
 - d. Premium payment assistance
2. The local government may establish a Working Group (WG) of agriculture insurance in coordination with various stakeholders in socializing and facilitating the implementation of agriculture insurance including the settlement process of the claims to the insurance company.
3. The local governments are expected to provide inputs/feedbacks to the creation of Guideline of Agriculture Insurance being prepared by The Ministry of Agriculture



Conclusion

1. The Farmer Protection and Empowerment Act is one of key elements in adapting the climate change and supporting the development of agriculture sector
2. Agriculture insurance is crucial in assuring the food security with stabilized price and achieving the demand and supply side targets.
3. Agriculture insurance will play a significant role in many commodities involving public and private spending
4. The role of government (central and local) is important in popularizing and assuring the good and fair implementation of agriculture insurance
5. Development partners can assist the initiative through providing knowledge capacity and sharing of best policies and practices in implementing agriculture insurance



Thank you

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