Implementing Adaptation Measures

Rice Crop Insurance Pilot Project in Indonesia

Background
Global climate change and man-made disasters can seriously affect agricultural performance. In Indonesia, rice is the main strategic crop, thus maintaining the production level of rice is crucial for farmers and consumers. In addition, stable domestic production is important to reduce import dependency, cut government expenditure, and maintain food security.[1]

On the other hand, rice farm activities are subject to uncertainty and are constantly exposed to high risks of farm damage and harvest failure. Agricultural insurance is designed to address such risks, and is considered to be one of the agricultural financial support schemes that can help maintain production and productivity at a certain level and contribute significantly to the national stock.[2]

Objectives
The objectives of the Rice Crop Insurance Pilot Project are:
- to increase awareness of risks that threaten agricultural or farming activities,
- to promote increased knowledge and skills, and improved farm management and risk management,
- to relieve the dependency of farmers on capital from other sources if they can get compensation from an insurance company,
- to increase income and welfare through the success and sustainability of farming businesses.

Although the main objective of this program is to ensure a stable food supply, rather than to adapt to climate change impacts, the importance of the rice crop insurance scheme is becoming increasingly apparent due to the future effects of climate change.[4]

Activities
Pilot studies have been implemented. In the 2012/2013 planting season, JICA's pilot projects were carried out in Tuban and Gresik in East Java (320 and 150.87 ha of rice farm, respectively) and OKU Timur in South Sumatra (152.25 ha). In the 2013/2014 planting season, projects were conducted in Kabupaten Jombang and Nganjuk in East Java (two locations at the central part of the province, Jombang: 734 Ha/Nganjuk: 702 Ha).[1]

These projects were conducted by the Corporation-based Improved Food Production Movement (GP3K), initiated by Presidential Instruction No. 5/2011.

Other pilot activities were also carried out in different areas during the period between 2013 and 2015. The Government plans to expand its pilot projects into 16 provinces (approx. 1 million Ha) by the end of 2015, and expand this scheme to all paddy fields in Indonesia by 2019.
Institutional arrangements

- Stakeholders: Ministry of Agriculture (MOA), National Development Planning Agency (BAPPENAS), Meteorological, Climatological, and Geophysics Agency (BMKG), Ministry of Finance and State-owned Enterprises (See Figure 2-3-1)

- Cooperation: Japan International Cooperation Agency (JICA)

![Figure 2-3-1 Institutional Arrangements of the Project (gray lines: up to 2015, red lines: from 2015)](image)

Process

![Figure 2-3-2 Timetable of Political Events Related to Climate Change and Rice Crop Insurance in Indonesia](image)

- ICASEPS with FAO conducted a study on agricultural insurance in the North Sumatra Province and Bali Province
- Start allocating budget to cover rice farmers’ losses due to puso
- Production in dealing with Extreme Climate
- local gov. and MOA got a connection between state-owned enterprises
- The Farmer Protection and Empowerment Act or FPE Act (Law No. 19/2013)
- SOMPO, NIAES and RESTEC preparatory survey for the introduction of the Weather Index Insurance
- 2012-2015 pilot projects supported by JICA
- 2015-2019 nation wide implementation

- Announcement of RAN-GRK (Oct 2011)
- Launching of RAD-GRKs (Nov 2012)
- Governor’s Instruction on Adaptation to Extreme Climate Condition in North Sumatra
- Official launching of RAN-API (Feb 2014)
- DNPI integrated into KLHK (under reorganization)
- Meeting for sharing basic concepts for adaptation to the local governments (Feb 2015)
Formulation

The Indonesian Center for Agricultural Socio-Economic and Policy Studies (ICASEPS) conducted studies on agricultural insurance, especially rice farming. In 2008, ICASEPS also conducted a study on agricultural insurance in the North Sumatra Province and Bali Province in collaboration with the Food and Agriculture Organization (FAO).

Since 2011, the Government of Indonesia has allocated a budget to cover rice farmers’ losses that occurred due to total harvest failure. The fund aid to cover total harvest failures is allocated in accordance with Act No. 12/1992 on Crops Farming and Presidential Instruction No. 5/2011 on Securing National Rice Production in dealing with Extreme Climate.

Agriculture insurance activities are governed by the Farmer Protection and Empowerment Act or FPE Act (Law No. 19/2013). The law stipulates that the national government and local governments are obliged to protect farming activities through Agriculture Insurance in accordance with their authority.

Implementation

Through the Agriculture Insurance Working Group (AIWG), Ministry of Agriculture (MOA) took the initiative to introduce, advocate, and disseminate rice farm insurance. AIWG organized a coordination meeting with representatives from several provincial/regency offices, state-owned fertilizer companies, and the state-owned insurance company (JASINDO).

JICA’s pilot projects in 2012-2015 were conducted in cooperation with state-owned fertilizers companies and state-owned insurer. State Fertilizer companies’ role in this regard is expected to mitigate the burden of a premium of 80% for farmers through a state subsidy.

Capacity development on climate-related information and adaptation at a farmers’ level has been done in coordination with local governments and MOA. Pilot activities for capacity development were implemented in Kabupaten Pasuruan, East Java Province in May 2014. These activities included some training components on using climate and weather information for rice farming.

Training on Geographic Information System (GIS) was supported for BMKG staff in Jakarta. A series of exercises on seasonal weather forecasting and downscaling was also conducted with instruction from Japanese experts.

Monitoring and Evaluation (M & E)

Monitoring and evaluation started from the end of the planting season, Oct. 2013 – Mar. 2014. BAPPENAS has been monitoring the progress of each pilot project. BAPPENAS is planning to assess an appropriate insurance scheme for each local area, and consider if the national support ratio of all premiums (80% as of 2015) can be reduced.

BAPPENAS is responsible for managing data. Because gathering information on small farmers is difficult, BAPPENAS works together with Bureau of Statistics Indonesia (BPS), Ministry of Home Affairs (KDN), and Ministry of Forestry and Environment (KLHK).
Lessons Learned and Policy Recommendations

Importance of the government’s initiative to develop a national roadmap based on donor support programs

It is worth noting that the Government of Indonesia has taken the lead to expand this agricultural insurance scheme nationwide, based on its experience of pilot projects supported by JICA. The government developed the draft national roadmap for 2015 to 2019, and started allocating national funds to agricultural insurance in 2015. Based on this roadmap, the government intends to apply this scheme to all paddy fields in Indonesia by 2019.[3][4]

Challenges for expanding the coverage area at a local level

It is essential to secure the capacities and numbers of necessary personnel (extension workers and loss adjusters) for expanding the coverage of agricultural insurance. In particular, extension workers play important roles for the capacity building of farmers. It is important that the coverage area of insurance is expanded gradually, in parallel with capacity building through training provided by appropriate trainers.[4] Besides, it is strongly recommended to establish agricultural insurance working groups at local levels. Enhancing collaboration among local governments, farmers, and insurance companies is highly important.[3]

Considering further promotion for a wider range of customers in different areas (more than 500 districts) nationwide, the insurance schemes will be improved to make them more rigid.[7] Currently, yield-based and weather index-based insurance schemes are being considered. The schemes are complex, in general, but the speed of payments is relatively fast. Because effective insurance schemes change according to the geographical, environmental, and economic situation of the target area, local governments need to assess the situation and decide an appropriate scheme for each local area.[4]

Importance of providing incentives for farmers

Implementation of pilot projects for agricultural insurance has helped farmers to understand the basic concept of the insurance scheme, has led them to realize that the scheme could be practical for their farms, and has promoted their participation in the scheme. The key to success was the government’s decision to start the pilot project on a small scale.

The time required for the payment process should be shortened to maintain the participants’ willingness to rejoin the insurance program in the future. The farmers may wish to start working as soon as possible without a painfully long verification process.[4]

Besides, farmers need to be well informed of rules and regulations regarding the verification process for a failed harvest report (claim report), in order to avoid misunderstandings and disappointment. Rules and regulations are also important for avoiding false claims.[3]

CONTACT INFORMATION

Directorate of Food and Agriculture
National Development and Planning Agency (BAPPENAS), Indonesia
Tel: +62 (0)21 3193 6207  Fax: +62 (0)21 3145 374

Directorate of Agricultural Finance
Ministry of Agriculture, Indonesia
Tel: +62 (0)21 7806 131, 7804 116
Fax: +62 (0)21 7806 305

SOURCES

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[3] Interview survey with BAPPENAS (conducted by Mitsubishi Research Institute, Inc.), August 2015
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[5] Interview survey with Ministry of Agriculture (conducted by Mitsubishi Research Institute, Inc.), August 2015
[8] National Development Planning Agency (BAPPENAS), Ministry of Agriculture, and Meteorological, Climatological, and Geophysics Agency (BMKG), and Japan International Cooperation Agency (JICA) (2013), RICE CROP INSURANCE PILOT PROJECT IN INDONESIA: AN IMPLEMENTATION REVIEW

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