

# **How to Promote Rice Farming Insurance Policy? Evidences from Indonesia**

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## **INTRODUCTION**

The agricultural sector is one of the most contributive sectors for the Indonesian economy. Because of its importance every farming and peasant business should be protected, especially in the face of various problems such as business uncertainty, price risk, crop failure, high cost economy practices, and climate change (Aziz, 2016).

Indonesia's national mission is to make Indonesia become the World Food Barn by 2045. To ensure this mission to be successful, the government, through Indonesia's agriculture minister and state-owned enterprises, aims to improve national food sustainability and farmers' welfare. Although there are numerous discussions on various ways to support this mission, this paper will focus on the insurance of rice farm, including its goals, how to achieve these goals, as well as the mechanisms required for proper implementation.

## **POLICY FRAMEWORK**

The government turned its focus towards rice production by implementing the national self-sufficiency rice program (UPSUS Swasembada Padi) with a target production of 75.13 tons in 2016. Implementation of this program showed that climate change is the largest risk of uncertainty faced by farmers. To this end, the government held a program for protection and empowerment of farmers, published in both the Regulation of the Ministry of Agriculture No. 19 of 2013 on the Protection and Empowerment of Farmers, and Regulation of the Ministry of Agriculture No. 40 of 2015 on Agricultural Insurance Facilitation. However, under the constraints in implementing the program, the government will expand and promote legal regulations for the rice farming insurance program (AOTP) by providing premium assistance to AOTP members in 2017 (Ministerial Decision, 2016).

### **Program Missions**

Risk factors, such as climate change, natural disasters, and international trading fluctuations, are major deterrents for Indonesian farmers. To alleviate these concerns, the government has begun to invest in the education of agricultural business and risk management. By encouraging skilled farming practices, farmer retention will increase, and dependency on subsidies and businesses capital assistance will decrease.

Through AOTP, the government encourages local governments to develop the regional economy through improving agriculture sustainability and food security. In addition, increasing

local government awareness on the importance of farming and anticipating risks for agricultural enterprises at the local level are priority goals of AOTP.

The government also aims to develop the private sector. This will be accomplished through opening new business opportunities for insurance companies and improving worker ability in risk management for agricultural businesses (Pasaribu, n.d.).

### **Mechanism of AOTP**

The financial source for implementation of AOTP comes from the state and regional budget. The financial details of the insurance program consists of physical finance in the form of government premiums and operational finance such as meetings and travel expenses.

Compensation is provided to the participants of AOTP in the event of floods, drought or pest attacks that result in damage to rice crops. Compensation is awarded under the condition that the rice has been planted for at least ten days if planted manually, at least thirty days through direct seeding technology, or the damage intensity reaches  $\geq 75\%$  and the extent of damage reaches  $\geq 75\%$  in each natural plot area.

Premium Rice Farm Insurance is a sum of money paid as a fee to get insurance coverage. Total insurance premium is calculated at Rp.180,000 / ha / MT which is made above premium assistance from the government, Rp.144,000 / ha / MT, and the rest is from self-supporting farmers, Rp.36,000 / ha / MT. If the land area insured is less than or more than one hectare, then the amount of the corresponding premium or compensation will be calculated proportionally. Under the insurance program, the maximum coverage is set at Rp.6,000,000 / ha / planting season. The duration of the insurance policy lasts for one growing season. Coverage begins on the expected planting date and ends on the expected harvest date.

### **Terms and Conditions**

The criteria for program registration is for farmers that farm at least two hectares of land, regardless of land ownership. In addition, the rice field must already have a functioning irrigation system (e.g., technical irrigation, semi-technical irrigation, traditional irrigation, and swampland with a functioning water system) or have a consistent source of natural irrigation (e.g., surface water and groundwater). Finally, rice crops must be planted for at least 30 days to be eligible for coverage.

The insurance, AOTP, will cover damage to crops affected by floods, droughts, and attacks on Plant Disturbing Organisms (PDO). PDO includes plant pests (including stem borers, brown stem leafhoppers, peppered sage, rats, Spodoptera sp., and golden snails) and plant diseases (including blast, brown spots, Tungrovirus, rotten stems, dwarf hollow, dwarf grass or yellow dwarf, and crackle) (Ministerial Decision, 2016).

### **Key Performance Indicator**

Performance of the program is evaluated by three key performance indicators. These indicators are participants' willingness to pay for insurance premiums, the distribution of premium aid to registered farmers, and proper compliance to the aid distribution procedure in accordance with the Ministerial Decision No. 15/Kpts/SR.230/B/05/2017 regarding Guidelines for Rice Farming Insurance.

## **Risk Analysis and Control**

Risks that may occur are: a) unwillingness of farmers to pay for insurance premiums; b) misdistribution of coverage caused by improper data collection. Solutions to mitigate risks are as follows: a) development of insurance guidelines for farmers; b) socialization of guidelines to all stakeholders; c) assistance to the implementation of activities intensively.

## **CONCLUSIONS**

To support Indonesia's national mission of becoming the World's Food Barn by 2045, the Indonesia rice farming insurance program (AUTP) was implemented to provide protection to farmers. Indonesia has begun to advance all aspects of the agriculture with the aim of stabilizing national food security, food sustainability, and welfare of the people and economy.

Rice farm insurance is expected to provide protection to farmers if harvest failure occurs due to flood, drought, and pest attack. The insurance program should effectively provide compensation to farmers affected by crop damage. The program also aims to educate farmers about risk management and proper agricultural management.

Rice farming insurance program is the beginning of agricultural insurance preparation nationally and comprehensively for other agricultural commodities. Currently, the condition of the program is still under study in an effort to produce a sustainable and structured agricultural insurance program. The government has continued developing a legal basis for AUTP as a national plan in recent years.

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