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Indonesia: Occurrence of Insured Rice Majority

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Introduction

Rice is a major crop and food staple, occupying around 60percent of Indonesia's total arable land and providing nearly half of average citizens' daily energy requirements. More than one-third of rural households are rice farmers and almost one-quarter of all Indonesian households are engaged in rice cultivation, mostly on small-scale plots [1]. The figures below illustrate the extent to which the risk of floods, droughts, pests and disease impacts rice production and incomes in Indonesia. In 2008, approximately 5% of annual rice production was lost to these causes. The increasing frequency of flood and drought and uncertainties related to climate change sound a strong warning about the types of risks farmers face, both now and in the future. Although existing subsidies and price policies improve access to inputs and markets and improve farmers' terms of trade, policies responding to the risks farmers face are clearly lacking in Indonesia. For years, producers have practiced traditional risk management mechanisms such diversification, mixed farming and cropping, inter-cropping, and crop rotation [2]. Unfortunately, such strategies can be costly in terms of forgone income and limited capacity to spread co-variate risks. Indonesia can therefore mitigate the impact of future crop losses by seizing the opportunity to proactively protect farmers from such unpredictable events. Global experience has demonstrated that crop insurance programs both cushion farmers against the income shock of crop losses by spreading such losses over space and time, as well as facilitate continued production activities after crop failure or a bad crop year. A committed policy response supporting rice crop insurance in Indonesia can provide a safety net which reduces farmer vulnerability to income shocks, thereby securing an important source of livelihoods. Some crop insurance particularities must be kept in mind when a final policy package is developed. First, the farm insurance market, like others, faces the problem of adverse selection and moral hazard. Adverse selection means that only high-risk farmers participate while moral hazard implies that insured individuals take less care in preventing the loss as compared to uninsured farmers. Farmer contribution to insurance premiums and mandatory participation are intended to prevent these unfavourable occurrences. Substantial government support in the form of premium subsidies, technical guidance, financial support and reinsurance of risky crops are prerequisite to the success of insurance schemes [3]. Preliminary cost estimates of 132,000 Indonesian Rupiah/ha/planting season, to be shared equally between producers and government subsidy, will be verified and revised as necessary by the National Rice Insurance Committee and subsequently the Insurance Task Force [4]. Both regencies local governments have allocated the operational cost of the pilot scheme in their respective annual development budget for 2010. The scheme will be applied by planting season with annually renewable contracts and the option to expand to a larger area. Going forward, the national and provincial level governments will need to allocate funds required for policy package implementation, including premium subsidies and operational costs [5]. Linkages with state-owned enterprises and private sector business houses or companies are also encouraged to mobilize financial support from Corporate Social Responsibility funds.

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Conflict of Interest

None

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