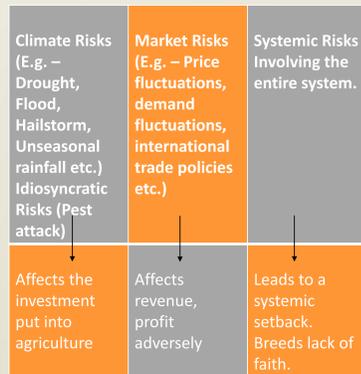


Introduction

- In India, close to 50% of the population practices agriculture as their primary occupation and face risks from the climate, the market and the system.
- Crop Insurance is an effective tool against these risks.
- This scoping study has been carried out in the Ahmednagar, the largest district of Maharashtra in order to have an in-depth understanding of the risks farmers face and how adept the current crop insurance system in India is to tackle these issues
- In India, crop insurance began in 1972 and in the 46 years of its existence has had seven variations, culminating into the currently functional index-based insurance Pradhan Mantri Fasal Bima Yojana (PMFBY) and Weather Based Crop Insurance Scheme (WBCIS).



Crop Insurance

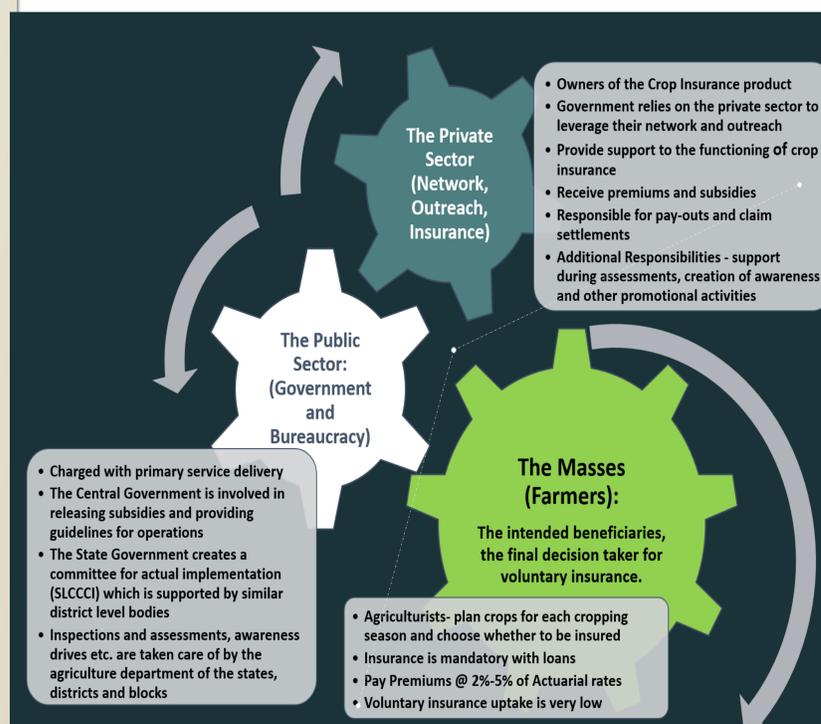
Facts and figures about Indian Crop Insurance:

- Crop Insurance in India is a federally owned scheme to buffer the farming community against the climatic risks and other idiosyncratic risks like pest attacks (Risks such as market volatility or logistical shortfalls do not fall under its ambit).
- The two schemes jointly cover 26.5 % farmers in 2016-17, most of which is involuntary insurance, coming as mandatory with Formal Agriculture credit.
- Only 35 % of Formal Agriculture Credit is taken by the small and marginal farmers, who hold almost 70 % of Country's farmland, indicating the vast majority of poor farmers who stay out of the ambit of crop insurance.

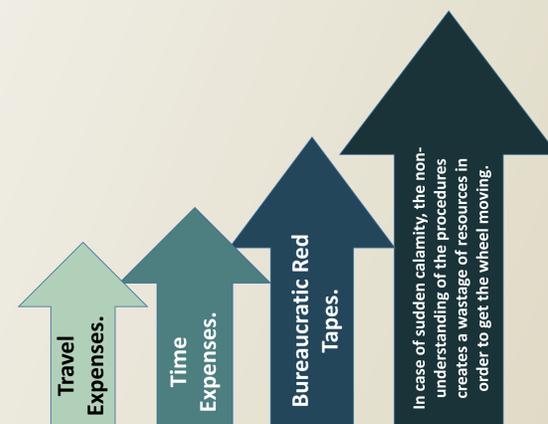
The model of Crop Insurance

COUNTERPART	OBJECTIVE	OBSERVED OUT COME
THE INSTITUTION	Government (The Central and the State)	Maximise Reach/ Area under coverage. <ul style="list-style-type: none"> Looks more at bringing more farmers in the ambit, without looking at the efficiency of the system. Time delays Obfuscated bureaucracy tapes Pressurised workforce
	Private Players	Maximise Profit Irregular pricing, changing every year
The conflict of interest of the above two players affects the decision of the farmers, who are the final decision makers in terms of taking up the insurance		
THE MASSES	The Farmer	A B

The Crop Insurance Machinery



A bit more about what drives up transaction cost



Mistrust in the System and Creation of Political Apathy.

What can Apathy do?

- Erode long term insurance taking behaviour
- Incur very high amount of financial losses as ex-post damage control.
- Create disinterest in the farming sector as people move out due to the high risk to investments.

Other Problems plaguing the sector:

- "Area based Insurance" system creates problem of homogeneity where a uniform indexing is applied to a large area, ignoring the heterogeneous landscapes and weather / damage conditions.
- Easy alternate source of finance and recurrent loan waiver schemes have created a behaviour of financial Irresponsibility. The farmers are less willing to do investment out of hand for future risk management.
- The institution takes no initiative to create a clear understanding of the procedures and benefits of insurance.
- With remote areas under its purview and low manpower, less support from the private sector, the timeliness of settlements is hampered greatly.

Contact Information

Bidisha Sinha*
 Email Id: bidishasin@gmail.com
 Arpan Golechha*
 Email id: arpan.golechha@wotr.org.in
 Watershed Organisation Trust (WOTR), Pune
 WOTR- centre for Climate Resilience (W-CReS), Pune

A	The Farmer's decision matrix is a complex one. The decisions he takes are on a plethora of variables like— <ul style="list-style-type: none"> Which crops to take? What seeds to use? How much area to bring under cultivation? Other Non-Agricultural Investments Availability of Credits and his ability to payback. Whether to take crop insurance or diversify investments. Etc. 	On the other hand, the factors affecting farmers' decision are— <ul style="list-style-type: none"> His Capital His state of debt His expectation about the future climate Past and Expected Future market conditions His Information matrix.
• Maximise Utility of the current period or Discounted Utility over Multiple period , subject to the above stated factors.		
• Insurance forms only one part of farmer's decision. However, finally what determines his willingness to participate in the process is—		
Premium + Transaction Cost < Claim Received		

B The conflicts of interest between the two counterparts of "The Institution" **drives up the Premium and Transaction Costs**, which discourages voluntary uptake of Insurance and creates **Political Apathy** towards the system.