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AGRICULTURAL (CROP) INSURANCE IN SRI LANKA (Ceylon)

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1. It is but appropriate that Sri Lanka should have been selected as the venue for this Seminar on Agricultural Insurance as it is the first country in South East Asia outside Japan to operate a Crop Insurance Scheme. Sri Lanka is a land striking in its natural beauty, green and fertile and blessed with a pleasant tropical climate. The land covers an area of 25,332 square miles and supports a population of over 14 million most of whom derive their living from agricultural pursuits.

2. For agricultural purposes Sri Lanka can be divided into two broad natural regions based largely on the distribution of rainfall; the wet zone and the dry zone. The wet zone covers the entire South West quadrant of the island, and has a mean annual rainfall of over 75 inches, and the dry zone covers almost the remaining three quarters and has rainfall of less than 75 inches a year and is characterized by a pronounced drought during the South-West monsoon from May to August.

3. The two zones together comprise about 16.2 million acres, of which about 6.7 million acres are cultivable, and of which over 3.5 million acres are already under cultivation. The main crops are tea, rubber, coconut and rice (paddy).

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4. Tea, rubber and coconut, though not free from the effects of drought and disease, have not been so regularly affected as to create a strong demand for insurance, although both tea and coconut have in the past 30 years been each at least once seriously affected by disease.

5. The position as regards rice cultivation, however, is somewhat different. Paddy (rice) has been more susceptible to the effects of disease, drought and excessive rainfall, and weather conditions such as rainfall and its distribution, temperature and day length have a marked influence on the growth as well as on yield of rice. Further, rice cultivation is undertaken largely by small peasant farmers who lack resources and cultivate comparatively small plots of land and are, therefore, unable to withstand a crop failure. Rice is also the most important food crop in Sri Lanka, and as the country is deficient in rice, increased rice production has always been a matter of prime concern to the Government of Sri Lanka.

6. Rice cultivation is done in two seasons - Maha and Yala. Maha is the main season, ~~the crop being~~ sowed in most areas from the end of August to mid-October and harvested in February-March. Yala is a shorter season, the sowing being done in March and April and harvesting in July and September. The area cultivated in Yala is less than in Maha.

7. As mentioned, Sri Lanka (Ceylon) was the first country in South East Asia to adopt crop insurance, when in view of the importance of rice cultivation to the country's economy, it was decided to have a Crop Insurance Scheme in respect of paddy. In 1956, the Food and Agriculture Organisation of the United Nations assigned to Sri Lanka the services of an agricultural insurance expert, Dr. P.K. Ray, who submitted a report to the Government of Ceylon on crop (paddy) insurance in 1957 [1]. This report dealt with the need and possible benefits of paddy insurance,

[1] Government Sessional Paper XIV - 1957

the basic principles on which a scheme of paddy insurance could be started and the actuarial basis for paddy insurance in Sri Lanka. It also indicated the administrative and organizational set up, and the financial implications, and recommended the application of the insurance scheme by stages, suggesting an initial pilot scheme.

8. The Government of Sri Lanka accepted in principle the idea of crop insurance as one of the important measures for increasing agricultural productivity in the island, and in 1957 made a second request to the FAO to send an expert to advise on and help in the preparation of a pilot scheme of crop (paddy) insurance, and the FAO responded by sending the same expert.

9. Crop insurance in Sri Lanka could for purposes of study be divided into three distinct periods:

1. The first is the period 1958/59 to 1960/61 when a pilot crop insurance scheme was launched covering around 28,000 acres and worked on an administrative basis pending the passage of the necessary legislation - the Crop Insurance Act No.13 of 1961.
2. The second period is from 1962/63 to 1973 when the Act was operative and the area under insurance was gradually increased to around 200,000 acres, or in terms of cropped acreage 300,000 acres.
3. The third is from 1973 onwards when under the Law of 1973 insurance was to be compulsory and to operate on an islandwide basis covering 1.4 million acres or 2.1 million cropped acres.

10. The objective of the pilot Crop Insurance Scheme commenced in 1958/59 was to carry out an experimental Crop Insurance Scheme with paddy mainly with a view to gaining experience in its working so that in course of time it could be extended to cover the entire island. Basically, the protection was to be against average or normal physical losses from various natural

hazards beyond the producer's control in return for an annual contribution. Abnormal or extraordinary losses in any season would, to the extent of their excess over the average or normal losses, still be covered by insurance, but the entire cost of such losses was to be borne by the Government as a part of its relief operations.

11. The pilot project which was inaugurated in the 1958/59 Maha season was on an administrative basis. The initial experimental scheme covered about 28,000 acres, which was approximately 3% of the total physical extent of the land cultivable with paddy of 1,031,600 acres or 3½% of the total acreage sown with Maha (824,500 acres) in the island in 1954/55.

12. The pilot scheme covered six different districts so that problems of each region could be studied for a period of 4 years in order to gain knowledge and experience and to test farmers' reactions. The allocation of the insurable acreage among the districts was made keeping in view the necessity of balancing high and low risks so that premiums could be kept at a reasonable level without at the same time creating a situation where the Government would have to bear large initial expenses. The "All Risks" insurance scheme was to apply only against large scale losses in quantities, that is when the loss exceeded 30% of the estimated or appraised long term average yield. Insurance was compulsory in areas declared to be under insurance.

13. Under this pilot scheme the maximum amount of insurance protection was not to exceed 50% of the long term average yield of paddy per acre, valued at the guaranteed price or at any other fixed price to be determined in advance by the Commissioner of Agrarian Services. An exception was to be made in case of growers who followed new and improved farming practices when maximum insurance cover was raised to 60%. This was hardly an adequate incentive but the provision was one of utmost significance for it ~~was an incentive for farmers to risk changing~~ from traditional methods of cultivation to approved new scientific methods which would

increase agricultural productivity, which is one of the objectives of crop insurance. This is a provision that one could unhesitatingly commend to those in developing countries commencing crop insurance.

14. The maximum indemnity payable under the scheme, whether it was 50% of the average yield or 60% of yield, in case of use of improved methods, was only if a loss occurred after flowering. If the loss occurred at an early stage only 15% of the cover per acre was paid by way of reimbursement of actual expenses, whilst 70% of the sum insured per acre was paid if loss occurred subsequently but before flowering.

15. The insurance coverage and premium rates per acre were determined by districts. Premiums could be paid in cash or kind. The average insurance cover under the pilot scheme was worked out at Rs.142/- and the premium Rs.11/- per acre or approximately 8%. It was later felt that the premium would be too much of a burden on the farmers and was revised to Rs.6/- (1958/59). The rate was to be uniform with necessary adjustments in insurance coverages so as to reflect as nearly as possible the difference in yield and risks.

16. The collection of premium was in principle to be after harvest. The reason for this was to make it less onerous to farmers. One of the major problems of crop insurance in the island has been the collection of premia, and one is inclined to believe that the principle of collecting the premium after the risk is run has been a significant contributory factor. Farmers are not insurance conscious, and if they were reluctant to pay the premium once they knew they had suffered no loss, it was understandable.

17. The unit of loss adjustment in Paddy Crop Insurance was to be the "Insurance Unit", consisting of the aggregate acreages owned or leased or operated by an insured farmer within a district, even if such acreage was located in different divisions and tracts within the district. The farmer was indemnified only when the overall average yield of the

"Insurance Unit" fell below 70% of its average yield over at least five preceding years, as established by the Department of Agrarian Services.

18. In addition to bearing the costs of administration, the Government was to allocate annually a fund to be utilized for premium subsidy in case of specially high risk farms, and further make an annual contribution to the Crop Insurance Reserve.

19. Crop Insurance was to take care of all "normal" failures of crops, but in the case of widespread loss of a devastating nature the Government was still to offer relief in an affected area, subject of course to the policy and finances of the Government. In conformity with that principle, losses upto 15% of the total insurance liability in any year were to be covered by the Paddy Crop Insurance Funds consisting of premium payments by farmers, premium subsidy by the Government, and the Crop Insurance Reserve, and all excess losses were to be met by way of the usual "relief" operations of the Government.

20. The administration of Crop Insurance was carried out by the Commissioner of Agrarian Services with the assistance and cooperation of such other departments whose activities had a bearing or relevance to the cultivation of paddy. Crop Insurance at the village level was as far as practicable operated by the Co-operatives, Agricultural Production and Sales Societies and by Cultivation Committees where they were functioning.

21. The pilot project which was inaugurated in 1958/59 functioned on an administrative basis for three years upto 1960/61. In 1961 a Crop Insurance Act (Crop Insurance Act No.13 of 1961) provided the necessary legislative authority for the operation of a Crop Insurance Scheme and this could be considered as the second phase of development.

22. The pilot project, as mentioned earlier, covered about 28,000 acres. Commencing from Maha 1962/63, approximately 65,000 acres were brought under insurance, and the total gross area under insurance for the two seasons Maha 1963/64 and Yala 1964 amounted to 269,670 acres.

23. The insurance of paddy crop was compulsory in the area specified by the Minister under the Act, and hence all persons having any interest in lands within such areas were automatically insured under the Scheme. Both owners and cultivators were included and, therefore, the premium and indemnities were based according to their respective shares of the crop. Insurance protection was afforded against the lack of water, drought, excessive water, floods, disease, insect infestation, wild boar, wild elephants, and losses due to adherence to approved methods of farming.

24. The pilot project which commenced in 1958/59 covering 28,000 acres in 6 districts was extended to cover a maximum net area of 200,000 acres (of Maha only) or a gross area of approximately 300,000 acres Maha and Yala in 16 districts by 1973. Thus, at the end of 15 years the pilot scheme had been extended to cover approximately 15% of the gross paddy area. The insurance experience during the first five (financial) years of operation 1958/59 to 1963/64 was quite favourable. The total amount of indemnity payments (Rs.562,984) was less than the toal amount of premium collections (Rs.721,365), even though such collections fell far short of premiums due and amounted to only about 35% thereof. From 1964/65 to 1972/73, however, the premiums collected fell short of the indemnity payments, although this would not have been the case for the years 1964/65, 1967/68, 1970/71 and 1971/72 had 100% of the premiums due been collected.

25. The result of the first 15 years operation of the Crop Insurance Scheme could be briefly summarized as follows:

Area covered from 28,000 acres at inception to 300,000 acres for both seasons by 1973.

Total premiums due	Rs.16.9 million	
Total collected	Rs. 6.5 million	or 38% of amount due
Total indemnities paid	Rs.15.9 million	

Loss ratio on basis of claims paid to premiums due - 96%

Loss ratio on basis of claims paid to premiums collected - 245%

26. During the 15-year experimental period Government grants totalled Rs.5.7 million whilst the premium subsidy amounted to Rs.7.5 million, and administrative expenses borne by Government amounted to Rs.5.3 million, making a total expenditure by Government of Rs.18.5 million. The results were by no means encouraging but nevertheless served to demonstrate the feasibility of adoption of crop insurance in Sri Lanka. The period of study enabled the authorities to obtain essential statistical data, gain experience and build up technical staff whilst also creating some awareness of the possible benefits of crop insurance among the farmers. The Scheme would have met with more success had the limits of indemnity been more realistic and the mechanism for collection of premia been more effective. The indemnity limits, however, had to be kept low so as to be within the paying capacity of the average farmer.

27. The current phase of development of crop insurance begins with the repeal of the Crop Insurance Act nO.13 of 1961 and the enactment of the Agricultural Insurance Law No.27 of 1973, and which came into operation from 3rd April, 1974. The Act of 1973 constitutes a landmark in that it brought to a close a very useful 15-year period of study and experimentation and saw the introduction of an insurance scheme embracing the entire country.

28. The Act of 1973 established an autonomous body called the Agricultural Insurance Board. The Board was to consist of seven members as follows:

(i) Chairman appointed by the Minister.

(ii) An officer of the Ministry in charge of the subject of Agriculture nominated by the Secretary of that Ministry.

(iii) The Director of Agriculture or an officer nominated by him.

(iv) Commissioner of Co-operative Development or an officer nominated by him.

(v) An officer of an approved Bank.

(vi) An officer of the Insurance Corporation.

(vii) An officer of the Paddy Marketing Board.

29. In July 1979 legislation was introduced to limit the ex officio members to three. The general object of the Board as set out in the Act was to operate "a comprehensive Agricultural Insurance Scheme for the benefit of farmers in respect of the paddy crop and of such other crops as may be specified by the Minister by notification published in the Gazette and in respect of livestock which Scheme will indemnify them against loss, provide a stabilizing effect on farm income and promote agricultural production". The Board was also to undertake research necessary for the promotion and development of such agriculture.

30. The Act provided for compulsory insurance of the paddy crop and any person having an interest in the paddy crop in any area under the Act was to be deemed to have entered into a contract of insurance with the Board against the loss of such crop. The insurance scheme became effective for all paddy lands sown or transplanted after 15th March 1975. Between the repeal of the 1961 Act and commencement of operations under the 1973 Act it was not possible to provide insurance in Yala 1974 and Maha 1974/75.

31. A person having an interest in the paddy crop was to mean an owner, cultivator, a tenant cultivator, a landlord with tenant cultivators or a landlord with agricultural labourers.

32. The Board (with the approval of the Minister) was given the power to exclude any area or extent of land where the risk of loss was considered excessive. In the implementation no area was so excluded. The Board was to determine the premium payable by insured persons and such premiums could be paid in money or in kind.

33. The Agricultural Insurance Board, the organisation entrusted with the running of the Crop Insurance in the island, was under the Minister of Agriculture, and now under the Minister of Agricultural Development and Research. The Chief Executive is the Chairman of the Board of Members. Some members of the Board are from organizations whose assistance and

co-operation are vital for the success of the Crop Insurance Scheme. The necessary liaison among these various connected institutions is thus available at Board level, and prompt decisions can be taken involving these institutions as the representatives from the institutions are aware of the extent to which these institutions can assist.

34. The Agricultural Insurance Board has under the Chairman five main divisions, each under the Head of Division (designated at present as Director) and a supporting staff. They are :

(i) Actuarial and Research (including statistics).

(ii) Insurance operations. Under this division will be seven Regional Directors in charge of the Regions, Deputy Directors, Assistant Directors in charge of special projects, Field Officers, Field Assistants, and Loss Adjusting Officers. There is also a special unit handling Publicity and Training.

(iii) Administration.

(iv) Finance.

(v) Internal Audit.

35. At the field level it was originally envisaged that the Agricultural Insurance Board (AIB) would function through 480 Agricultural Productivity Committees (APC) for all administrative matters and would utilize the Banks' Agricultural Productivity Committee Branches for all financial transactions. The services of Ministry and various departmental staff were also to be obtained for loss adjustment, publicity and training, for which the officers concerned were to be remunerated by payment of an allowance. Statistical Investigators of the Department of Census & Statistics were to be assigned to Agricultural Productivity Committees (APC) to maintain statistics required by the Board. They were also to conduct crop cutting surveys for the AIB where necessary. The Cultivation Committee, 5600 in number, were to act as agents of the APC.

36. The APC was to be paid a small "Administrative Grant" by the AIB to subsidize the employment of a person to attend to insurance work, in

addition to which they received commissions on premia collected. With the abolition of Cultivation Committees the premium collections are now through Cultivation Officers and Banks where farmers take loans. Today, at field level there is one Assistant Director in charge of each District with a field officer and 2 or 3 Loss Adjusters to assist him. A Regional Director supervises the work of 2 or 3 Assistant Directors.

SIGNIFICANT ASPECTS OF THE 1973 SCHEME

Insurance Unit

37. Under the earlier scheme the unit of insurance was the household unit, which meant there were over 900,000 insureds. Under the 1973 scheme the unit was made the cultivation area. There were about 5600 such Cultivation Committee areas, The insurance programme was operated at local level through 480 Agricultural Productivity Committees and the Cultivation Committees.

Coverage

38. The coverage under the 1973 scheme was more attractive than under the earlier one, being Rs.100/- per acre in low potential or high risk areas to Rs.500/- in low risk or high potential areas, the corresponding coverage under the earlier scheme being Rs.100/- and Rs.180/- respectively. Farmers who adopted improved techniques got up to an extra Rs.200/- cover per acre under the new scheme. Under the new scheme the coverage level was chosen by the Cultivation Committee and that level applied to all farmers in the Cultivation Committee area.

39. Yields would vary with inputs, agro-climatic conditions, etc. from 30 bushels per acre up to even 100. Whilst the average yield per acre in 1976 was 44.9 bushels, the average yield today is 55 bushels per acre. ~~The guaranteed price is Rs.40/- per bushel of paddy.~~

40. The costs of production also vary district-wise. The field operations consist of land preparation, nursery, planting, irrigation, top dressing of fertilizer application, pesticides and weedicides, harvesting, processing and transport costs. Components of input materials include seed paddy, fertilizer, agro-chemicals and other miscellaneous items, and these too vary district-wise from approximately Rs.1.50 to Rs.3.75 per bushel produced.

41. In a study made of the Yala Crop 1972, it was revealed that the average cost of production of a bushel of paddy amounted to Rs.14/- when the yield per acre was 35 bushels. Today the cost is around R.1224/- per acre in irrigated land. In certain areas the cost of production is as high as Rs.1800/- per acre.

42. It will be observed that compared to investments and expected returns, the coverage limits were very inadequate. The coverage limits have, however, been kept low in order to keep premium rates low and within the paying ability of the average farmer. One of the objectives of crop insurance is to increase agricultural productivity and if the premium under a compulsory scheme is too high you may reduce productivity by driving out the marginal farmer.

43. Coverage limits, apart from bearing a relationship to average yields, must also, within the limits so permissible, bear a relationship to costs of production and credit facilities provided. In practice, however, coverage limits have been fixed taking more into consideration the paying capacity of the farmer which too is a crucial factor. Under the 1973 scheme, as mentioned earlier, the coverage levels were fixed at Rs.100/- to Rs.500/- per acre at the start, whilst the premium varied from Rs.3/- to Rs.30/- per acre. The coverage was first revised under the new scheme in 1976/77 Maha. The main features of this ~~revision were (Table A gives~~ average rates of coverages):

(i) The District Revenue Officer's division was made the unit of computation and the results disaggregated to the then Agricultural Productivity Committee levels.

(ii) Within the APC, the optional levels of premia for coverage ranging from Rs.100/- to Rs.700/- per acre were offered to farmers at Cultivation Committee level. The premium varied from Rs.5/- to Rs.30/- per acre.

(iii) The maximum and minimum coverage levels for each APC were based on the level of risk, the level of productivity and the capacity of farmers to pay premia.

(iv) The Chairmen of the Agricultural Productivity Committees were given the option to select the coverage on behalf of the Cultivation Committees.

(v) In the areas of heavy demand for Agricultural Credit, the coverage level was determined in order to cover the total or at least a major part of the loan.

44. The second revision came in 1978 (Yala) when the minimum coverage level was fixed at Rs.200/- and the optional levels at a maximum of Rs.1000/-.

45. The latest revision took place in July 1979 when the Banks' lending limits to farmers were increased in the light of increased costs of production. Accordingly, the maximum coverage limits were extended to Rs.900/- per acfe for rainfed fields and Rs.1300/- for irrigated ones.

Premia Collections

46. Paddy (rice) cultivation today extends to 1.4 million acres or 2.1 million cropped acres for the year, and involves around 1 million farmers. It is in this context, needless to say, that the operational cost of collecting premia must necessarily be high and the process difficult. Direct methods of collection as are possible in certain other countries

are not quite feasible in Sri Lanka unless the premium is added on to the Land Tax and collected, or adjusted with the fertilizer subsidy, but these measures may have other economic and political repercussions. The Paddy Marketing Board, the purchaser of paddy under the Guaranteed Price Scheme, does not purchase even 30% of the total production, so it is ineffective to collect premia at the sales point. Collection of premia through credit institutions is useful, but the estimated number of farmers relying on institutional credit facilities (through which such recoveries could be made) is about 20% to 25%.

47. The Act also provided that if the premium payment is in default, the amount in default plus interest could be recovered on application made to the Rural Court (or, in the absence of this, the Magistrate's Court) having jurisdiction over the place where the land was situated. For the purpose of such recovery the produce from the extent of land in respect of which such premium is payable was liable to seizure and sale. Whilst this provision for recovery of premium is available to the Board it has for a variety of reasons not hitherto been resorted to to any appreciable extent.

48. The prosecution of farmers is not always politically acceptable, and in any event taking to Court well over 500,000 farmers each year is not a practical or economic proportion. Thus, legislative powers for premium recoveries, although they appear very attractive on paper, are in practice not so due to difficulties of implementation.

49. The farmers position should also be appreciated. In low risk areas they see little benefits from insurance. In high risk areas, which by large are also areas where the return is low, the premium as computed on the basis of experience could be so high as to exceed the expected margin of profit. Compulsory levy of crop insurance premia could, therefore, drive the marginal producer out, reducing agricultural production contrary to the objectives of the scheme.

50. Under these circumstances the AIB had to rely on the APC and Cultivation Committees for collection in cash of the premia from farmers. During the period 1958/59 to 1977/78 the average collection of premia was only 38% of the amount due, and this was most unsatisfactory. In 1977/78, however, 46.6% of the premium due was collected, but this was because of the government's liberal credit policy implemented through the Bank where recoveries of premia were effected as deductions from loans granted.

51. Premium collection today is mainly through Cultivation Officers of the Department of Agrarian Services with a payment of 14% commission, or through lending institutions on loans granted to farmers with payment of a commission of 4%. Where there are no Cultivation Officers appointed, the officers of the Land Commissioner's Department are appointed as premium collectors and are paid 4% commission. The collections are channelled through the Agrarian Service Centres. 2% is paid to the Divisional Officer of the APC, and another 2% to the APC in respect of their clerical charges. The premium rates, currently worked out on the basis of higher indemnity limits of Rs.900/- p.a. for rainfed and Rs.1300/- per acre for irrigated fields, vary from Rs.26/- per acre to Rs.195/-. Premia in the range of Rs.120/- to Rs.195/- would be certainly beyond the paying capacity of the average farmer, and this is a matter receiving the attention of the AIB.

Claims and Loss Adjustments

52. Under the scheme, in the event of a loss the insured person has to prefer a written claim to indemnity within seven days of occurrence. The payments of indemnity to insured persons are:

(a) Only in respect of the sown area;

(b) Based on the coverage available for the land class, namely, according to the land being under major irrigation, minor irrigation or being rain fed;

(c) In respect of areas damaged;

(d) In proportion to the premia collected;

(e) Not to persons who have failed to pay premia within the stipulated time;

(f) In respect of damages due to specified causes, which under the 1973 scheme are the same as that under the 1961 scheme to which reference has already been made in para.12;

(g) In respect of fields where standards of good management laid down in Sec.83 of the Agricultural Productivity Law No.2 of 1972 are followed.

53. The Act provides for the deduction from indemnity payable of any sum due to any approved credit agency which has granted loans to an insured person for the purpose of paying premium.

54. Where the indemnities payable in respect of any season do not exceed 15% of the total insurance liability the amount is payable out of the Agricultural Insurance Fund. Where the amount exceeds 15%, the amount in excess of 15% is to be paid out of monies provided by the Government.

55. The administration expenses of operating the scheme are also borne by the Government together with the guarantee mentioned in the Government's contribution to the scheme.

56. The basis of loss adjustment and payment of claims followed under the 1973 scheme till Agricultural Productivity Committees and Cultivation Committees were dissolved in 1977 differed from the system presently followed, and was briefly as follows.

57. The farmers intimated losses and a Loss Notification Register was maintained at village level. Loss adjustments were carried out in two stages - a primary adjustment by Cultivation Committee officials on receipt of claims, and this was followed by a "Yaya" or "Tract" level adjustment by a representative Committee with an Agent of the Board around two weeks before normal harvesting time. The former enabled the

identification of specific plot losses whilst the latter gave a more general picture of the losses in the entire tract which could be related to the former. Loss adjustments were made on the basis of eye adjustment.

58. The limits of indemnity were based on average yields whilst within these limits the indemnity would be on the basis of the adjustment in each Cultivation Committee area pro-rated to the premium collections. If the premium collection in a Cultivation Committee area fell below the amount due, the indemnity payment was pro-rated. At the Cultivation Committee level if the individual farmer has paid less premium than he should have in relation to his holding, then he is further pro-rated. Reference will be made to this aspect later. The indemnity payments were made to the Agricultural Productivity Committee through the Bank with instructions re. pro-ration of the amount due to each Cultivation Committee.

59. The Agricultural & Productivity Committees and Cultivation Committees were abolished in 1977, and the Board which was utilizing these institutions for the assessment and settlement of claims was compelled at short notice to find an alternative scheme which presently operates. Loss Notification records are maintained at the Agricultural Service Centres (which are State Organizations unlike the Committees referred to above, which were bodies elected by the farmers) in respect of each Cultivation Officer area. The farmers describe the damage to crops to the ASC personally or by letter. If the damage occurs within one month after sowing of the fields and the fields can be re-sown, a first stage damage of Rs.100/- per acre is paid after inspection of the field by a Loss Adjusting Officer. The final stage damages are assessed two weeks before harvesting by Loss Adjusting Officers. The criterion in measuring the loss is the measure of deviation between standard yield and the actual yield. The actual yield is assessed by eye estimation and the standard yield per acre is averaged over a period of 10 years.

60. After the loss adjustment the claims in respect of each Agricultural Service Centre are sent to the District Office. The Assistant Director of the AIB and the Field Staff check these claims and thereafter the indemnity index in respect of each claimant is computed. The Divisional Officer of the Agricultural Service Centre certifies the index, and the claim forms are then sent to Head Office for processing through the AIB District Office. At Head Office, the claims processing officers check the claims and the accuracy of the index, and finalize payments in respect of each Agricultural Productivity Centre. The indemnity payments due to farmers who have taken loans are sent directly to the lending institution concerned, and other payments are sent by cheque to Agricultural Service Centres for disbursement to farmers.

61. The Crop Insurance Scheme in Sri Lanka has been in operation for 21 years having commenced in 1958/59. During the past five years it was to have embraced the entire island, but lack of co-operation, if not resistance or reluctance of farmers to insure, has not made insurance on an island-wide basis possible. Five years is too short a period to evaluate the success or otherwise of a countrywide scheme, but one could state that the basic problems in the period of experimentation and study have not yet been satisfactorily resolved, namely, the low percentage of participation by farmers resulting in low percentage of premium collection over premium due, and the high loss ratio of 132%. Further, there is no doubt that there has been selection against the insurer with the participation mainly of farmers whose farms are more susceptible to loss.

62. One of the reasons that contributed to the poor acceptance of the scheme was that the coverage level was chosen by Cultivation Committees and thereafter one single cover was applicable to all the farmers in that particular area. This often resulted in farmers using modern advanced techniques, and those following traditional techniques being grouped together to the detriment of the former when it came to a loss. Losses were determined on the basis of average insurance cover and high yield high cost farmers suffered.

63. It is of course not at present possible to work on an individual farm basis with about 1,000,000 farmers, but it is certainly necessary that the area covered be reduced to a sufficiently small one to obtain the greatest possible uniformity.

64. Another cause for discontent under the 1973 scheme which, however, has since been eliminated, was the system followed of pro-rating, to which reference has been made earlier. Under the system adopted, indemnities due to farmers in case of loss of paddy crops were determined for each Cultivation Committee area, which in effect meant the averaging of losses computed for all individual farmers sustaining losses within the Cultivation Committee area. The total indemnity so determined was reduced in proportion to the premium paid as against the premium due from the Cultivation Committees, and this reduced amount was paid to the Cultivation Committees. The Cultivation Committee thereafter allocated the total of such reduced indemnity to all insured farmers within its area on the basis of "average loss" sustained per acre, not only ignoring the difference between above average and below average loss farmers but also disregarding the difference between a farmer who had paid the full premium and the one that had paid less than the full premium. This second pro-ration deprived the farmer who had paid his premium in full from obtaining a full indemnity.

65. The Agricultural Board having to depend heavily in the past on Agricultural Productivity Committees and Cultivation Committees was another drawback, as the AIB neither had control nor could the Committee concerned be held responsible for their inaction or delay in carrying out functions for the AIB. There was far too much dependance by the AIB on Government Officers, and others as well, over whom the AIB had no administrative control. The utilization of available Government personnel and rural institutions has been motivated by a desire to cut down administrative costs which are to be borne by the Government, but in terms of efficiency of the AIB this has certainly been a costly exercise.

66. The problems that the Sri Lanka programme faces have been identified, and every effort is being made to find adequate solutions, and since lack of participation by farmers is one of the greatest drawbacks due to their inability to afford insurance, it is hoped to convince the Government of the need for a premium subsidy in order to take crop insurance effectively to the four corners of the island.

TABLE A

AVERAGE PREMIUM RATES AND COVERAGE PER ACRE (PADDY)

(Based on the results of the revision of P.R./Cover carried out during 1976)

DISTRICT	PREMIUM RATE PER ACRE (Rs.)				COVERAGE PER ACRE (Rs.)			
	Major Irrigation	Minor Irrigation	Rainfed	All Classes	Major Irrigation	Minor Irrigation	Rainfed	All Classes
Colombo	14	14	14	14	260	260	260	260
Kalutara	–	13	13	13	–	150	150	150
Kandy	8	8	8	8	200	200	200	200
Matale	10	11	12	11	240	240	240	240
Nuwara Eliya	8	8	8	8	200	200	200	200
Galle	12	12	12	12	150	150	150	150
Matara	12	12	12	12	150	150	150	150
Hambantota	14	14	14	14	400	400	400	400
Jaffna	30	30	30	30	400	400	300	350
Vavuniya	14	22	27	22	320	320	320	320
Mannar	9	20	29	24	230	230	230	230
Batticaloa	10	14	14	13	215	215	215	215
Trincomalee	13	16	19	17	235	200	200	212
Amparai	21	27	27	23	550	480	490	530
Kurunegala	11	11	11	11	165	165	165	165
Puttalam	13	13	13	13	110	110	110	110
Anuradhapura	20	22	27	21	500	340	335	425
Badulla	8	8	8	8	210	210	210	210
Polonnaruwa	12	12	12	12	200	200	200	200
Moneragala	14	14	14	14	200	200	200	200
Ratnapura	10	12	12	12	250	250	250	250
Kegalla	–	10	12	11	–	275	275	275
Walana	14	12	12	14	175	175	175	175
SRI LANKA	16	15	16	16	355	245	220	275