POLICY BRIEF
Effective Agriculture Insurance Programs

Lessons for ASEAN Countries from the National Agriculture Insurance Pilot Program in Vietnam

This Policy Brief is an output of the “Assessment of the National Agriculture Insurance Pilot Program of Viet Nam” which was conducted in 2016 until 2017 by the Institute of Policy and Strategy for Agriculture and Rural Development (IPSARD). The assessment was conducted as part of the overall work plan of the ASEAN Climate Resilience Network (ASEAN-CRN) in its efforts to translate regional agreements into national actions.

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Background

Agriculture Insurance is of high interest to ASEAN Member States as a tool to manage the increasing risk in agriculture, associated with the impacts of climate change as expressed in the ASEAN Regional Guidelines for the Promotion of Climate Smart Agriculture Practices (2015). Agricultural insurance has been used in the region for several decades with varying degrees. While a number of ASEAN countries are operating national agriculture insurance programs, some are still considering launching a national program or related activities are limited to small-scale pilot activities.

Vietnam’s experience with agriculture insurance is relatively long-standing, although a formal government-led national program was only implemented in 2011 through the National Agricultural Insurance Pilot Program (NAIPP) which was implemented for three years. Having in mind the interest of the topic for ASEAN countries and the commitment for regional cooperation and knowledge sharing through the ASEAN-CRN, IPSARD included in their assessment a section on lessons learned for ASEAN countries to take into account for developing their own agriculture insurance programs. The recommendations are structured along the key decisions and building blocks for designing such a program.

1 VIEWPOINT ON AGRICULTURAL INSURANCE DEVELOPMENT

Depending on the role of agriculture, characteristics of agricultural production and economic status, each country need to develop a clear viewpoint on AI before implementing, including the following:
The objectives of AI: Governments should consider the main objectives of AI, is it to stabilize social welfare in rural areas or to promote agricultural production. If the purpose of AI is to stabilize social welfare and support for farmers to overcome and compensate for impacts of natural disaster and disease, each government should compare AI to other disaster risk financing instruments (budget contingencies, donor assistance, budget reallocation, debt, tax increase, reserve fund, contingent loan) and choose the most suitable instruments for their country. If the purpose of AI is to promote agricultural production, they can also compare it with other investment policies (land, capacity building, market development, consultation, research and development and etc.). The principle is: the broader the purpose, the larger the burden to the state budget and the more research work is needed to design insurance products.

The role of government: It is important to consider, whether government plays the key role or rather a supporting role in the development of AI. In most successful cases of AI, AI is a marketed product and operates under market mechanism. In other words, both farmers and insurance enterprise have benefits, the government only plays a supporting role. With some special commodities, for example dairy cow, countries can help encouraging enterprises and farmers to establish an insurance fund, which is managed by farmers and support by enterprises.

SCOPE OF AI PROGRAMS
International experience shows that the development of AI might take a great deal of time and pushing the progress might bring negative impacts. Lots of preparation is needed before AI can be implemented, including developing of: policy framework, infrastructure, human resources, technical capacity and institutional arrangement. At smaller scale, it is easier to monitor and make timely adjustments. In Vietnam, because of the large scale of the pilot program, a decision/dispatch from MoF in order to adjust the contents of the program was required. The larger the scope of an AI program, the more preparation is needed and the implementation will be more complicated.

WHAT TO INSURE
Depending on the viewpoint of each country about AI, it needs to focus on some specific types of production and risks before expanding the pilot. Each country should do a cost benefit analysis of each risk financing option to find the financing gap for AI programs, thus design suitable insurance products.

If an AI program focuses on poor households, AI products should be design toward cereal crops to ensure food security. If the AI program focuses on developing agriculture, it should develop AI for key agricultural products which have the risk level acceptable for both demand side (farmers, agricultural enterprises) and supply side (insurance companies).

Governments should also encourage insurers to diversify the insurance products to meet the needs of each group of farmers, in accordance with the conditions of production and the natural conditions.

GOVERNMENT SUBSIDIES
Government should not provide premium subsidy extensively. This helps AI attract more participants, but also leads to cases that farmers just sign in the contract without knowing about the AI. The adequate subsidy rate depends on each country, but should not exceed 90% of the premium.

MONITORING AND EVALUATION
Because the government supported 100% of the premium, local government staff might fake farmer signatures to register for insurance and get their compensation when disaster happens. No cases were witnessed in Vietnam, but this can happen. Therefore, monitoring and evaluation systems must be developed and implemented by a third-party agency.

RISK DATABASE
Finally, an adequate database is the key input for a feasible AI program, which is also one of the largest constrains to develop AI. Therefore, governments of ASEAN countries should support insurance companies to gather data from different sources, including official data and household survey data. Even when countries are not going to implement AI immediately, they should prepare this data.