

Success Story in Iran

The Role of Insurance Fund in Agriculture Production

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Introduction

Since his creation, man has always changed the balance of nature and the Eco-system to his own benefit in order to provide for food and shelter. Through time, the increase in population and limitations of natural resources on the terrestrial globe have thus created irretrievable problems. In this respect, crop insurance is one remarkable solution to the problem of maximum utilization of limited resources within the agricultural sector of an economy which is based on agriculture as the main axis of development. Crop insurance may be regarded as the necessary means to reach the ultimate goal in the agricultural sector, which is the increase of the total volume of crop, livestock, and other agricultural productions, on the road to gradual gaining of self- sufficiency in the sector.

Crop insurance is designated to make the insured producer to transfer the major portion of his growing risk to multi-peril crop insurance which, in turn, spreads the risk among many producers throughout time. Crop insurance may be regarded as the necessary means to reach the ultimate goal in the agricultural sector, which is the increase of the total volume of crop, livestock, and other agricultural productions, on the road to gradual gaining of self- sufficiency in the sector. The producer's farming operation is stabilized as the insurance allows the prediction of a given amount of income at a specified time by either actual production or payment of indemnity. Aiming for high yield per hectare, crop insurance enables a producer to invest additional money necessary to obtain increased production per hectare. The result of the implementation of the insurance scheme in the

agricultural sector is that this sector is coming to resemble other industries in the felt need for risk transfer mechanisms that will at least provide protection against certain natural catastrophic risks, and help the fluctuations in the inherently unstable cash flows of agricultural industries.

Variety in climate and weather conditions has made agriculture, unlike any other economic activity, subject to unknown natural hazards which can neither be predicted nor prevented. Therefore, the chief characteristic of agricultural activities is their very direct connection with the nature. This means, with the occurrence of unfavorable natural conditions, the farmer is faced with a decrease in the level of production and total yield which, in turn, will not only create an income deficiency but, if repeated, will also deprive a producing farmer or livestock breeder from any possibility of a future investment in the field. In order to prevent a crop disaster from rapidly turning into a financial disaster for a farmer or farm family, crop insurance can be regarded as a chief preventive-protective measure which can play a vital role in safe-guarding the farmers production line. Crop catastrophes often necessitate government loans, grants, or other financial assistance to affected producers. In a year of crop failure, crop insurance provides an alternate source of income to meet loan payment. It is needless to say that crop catastrophes often necessitate government grants, loans, or other assistance to affected producers. Many farmers increase their borrowing power through the use of crop insurance. Hence, in a year of crop failure, crop insurance provides an alternate source of income to meet loan payment obligations. On the other hand, it is helpful to know that studies have shown that Iran has been introduced as the tenth country, in the world, most prone to calamities and natural hazards. In other words, out of 40 different kinds of natural calamities, glibly registered, 31 of them happen to occur in Iran .

Agriculture is a dominant sector in a large number of developing countries and accounts for a major part of their GNP. Not only it continues to be an important sector for employment but agricultural products are also important in the export field. Recognizing the importance of agriculture, the crucial role of agricultural insurance, as a necessary practice in the sector, must also be recognized. Agricultural insurance has an important role and is an essential activity in stabilizing financial fluctuations for those engaged in agriculture. In view of high risks involved in crop insurance, particularly in the event of a natural catastrophe, governments are to support, as a matter of policy, programs of crop insurance with appropriate resources. Since it is recognized that a large sector of the agricultural community consisting of subsistence farmers is and must be continuously supported in various ways, the importance of agricultural insurance, as a major example of that support, becomes more evident. Moreover, support for crop insurance including premium subsidies, continues to be provided by governments in certain developing economies.

Iran with an amplitude of 165 million hectares has a noticeable variety of weather conditions, with enormous changes of temperature, during different seasons of the year. Therefore, it holds an appropriate ground for the growth of various tropical, semi-tropical, and temperate productions. Considering the above facts, the total land can be civilized as follows:

Table 1 -The Topographic Distribution of Land Area in Iran

30%	Mountainous area with steep slope
20%	Desert and brackish ground
30%	Pastures with natural coverage
7%	Forest and shrubbery
11%	Agricultural land
2%	Miscellaneous

Formation of the Agricultural Products Insurance Fund:

The insurance of agricultural products has been under consideration in Iran since 1970 when studies began by the former Ministry of Agricultural Production and Consumer Products. In 1974, plans were drawn by the Ministry of Cooperatives and in April 1976 the Agricultural Products Insurance Law was taken to the Ministry of Commerce and then to the Central Bank of Iran for implementation. However, no positive action was taken. In December 1979, following the Islamic Revolution, a Bill was passed to establish the Relief Fund for Damaged Agricultural Units. At the same time, the previous laws of 1974 were nullified. However, Article 5 of the 1979 legislation allowed for planning of a final bill establishing the actual fund.

The present Agricultural Products Insurance Law was enacted in 1983 and provided legislative basis for the Agricultural Products Insurance Fund as it is currently constituted. The preparation of the Bill followed studies by the Ministry of Economic Affairs and Finance, the Ministry of Commerce, the Central Bank of Iran , the Agricultural Bank, the Central Insurance, and some other insurance companies. At the same time a committee was formed to tackle the detailed technical and organizational programmers for the Insurance Fund, holding regular meetings since 1981 at the Agricultural Bank.

Insured Crops

The main objective of the Insurance Fund is to eventually insure all the major strategic crops of the country. The insurance scheme began in 1984 with cotton, in the northern province of Mazandaran, and sugar beet in the north western province of Khorasan . Gradually the insurance activity for

these two products, along with other products, was extended throughout the country. Strategic crops which are now under coverage are as follows: cotton, sugar-beet, soybean, rice, wheat (irrigated and dry), potato, onion, corn, sunflower, and colza. On the other hand, orchard products which gain benefit from the insurance program are grape, date palm, citrus fruits, apple, tea, pomegranate, almond, and pistachio. By the end of the nation's Third Five Year Socio-Economic Development Plan (2000-2004) sugarcane, grains and cereals (irrigated and dry), vegetables, summer crops, maize (fodder), Lucerne, clover, sesame, peanut, tobacco, flax and hemp, green house products (summer crop and vegetables), ornamental and in-door flowers and plants are to gradually gain coverage.

As far as orchard products are concerned, in addition to those already covered, walnut, saffron, caraway, fruits such as pear, apricot, peach, cherry, and strawberry... etc as well as hazelnut, barberry, olive, fig, kiwi, banana, mango and persimmon are all under feasibility study in order to actively become part of the insurance scheme.

Moreover, by the end of the Third Five Year Plan, agricultural production factors will also be brought under insurance coverage in all the main fields. Currently, studies are undertaken to assess the insurance feasibility of such factors as agricultural and livestock machinery, rural buildings and constructions, rural workshops, in-door fish breeding units, irrigation installations, water-pump engines, life and accident insurance of the staff, transport and road insurance (beehives, livestock, etc.)

The Agricultural Products Insurance Fund of Iran

With the establishment of the Agricultural Products Insurance Fund in 1984, the Government actualized one of its most successful and progressive projects in the agricultural sector through the introduction of crop and livestock insurance system. Skilled planning and considerable efforts have

resulted in the overall adoption of the insurance scheme in the rural areas of Iran.

The Fund is rapidly expanding its activities in all strategic fields. It has extended the active areas of insurance from 2 provinces to all 29 provinces of the country thus increasing the areas insured from 90,000 hectares in 1984 to nearly 6 million hectares at present. The range of products, both agricultural and horticultural has increased from cotton and sugar beet to 25 main products in addition to livestock, forestry and pastures.

By efficient planning and sufficient effort to expand the cultural aspect of the insurance scheme, the Fund shall succeed in performing the difficult task of introducing the concept of insurance in newer fields within the rural community, and therefore enjoy, not only the benefits of the rapid development of the insurance program throughout the country, but also make the program a successful sample for others to follow.

The role of insurance fund in cotton

Supporting cotton production through crop insurance can help cotton growers income stability and insure farmers to receive loss damage in case of natural events and they will be inclined to grow cotton more. Base on service description of Insurance Fund and in order to recognize and separate the necessary technical and scientific standard for determining the monuments arising from either natural events or management damage during damage adjustment for deferent cotton growing stage. This has been done by collecting information from internal and external research resources and also by visiting cotton growing area preparing pictures comparing results and observations in order to determine fields yield potential and damage adjustment for both natural events and managements factors. Results are given in illustrated books and educational fascicles with complete and latest scientific and technical information with practicable and

prospective agricultural view . This collection represent the importance of cotton in economic, history, the use and the specifications of species. Varieties and cultivars. How to recognize, determine yield potential before and after planting, methods of taking representative sample for loss adjustment in separation of both natural events and management by using internal and others countries experience. Drawing a research results in a manner that is useable for insurance fund was our main gold.