

REGULATORY IMPACT ASSESSMENT (RIA) ON THE CROP INSURANCE REFORM OF GEORGIA



ISET POLICY INSTITUTE

IN COLLABORATION WITH

DELOITTE CONSULTING LLP

August 13, 2015

ISET MA Program in Economics
Policy Institute

International School of Economics at Tbilisi State University



Pilot Insurance Programs



Key Figures

	2014	2015
Policies sold	20'952	3'439
Total premiums (in GEL)	12'503'782	2'023'747
Amount of subsidies (in GEL)	11'729'678	1'131'434
Average level of subsidies (%)	94	55
Insured area (in ha)	18'596	3'112

Source: Agricultural Projects Management Agency (APMA)

Insurance Development Factors



Why government intervention in the agricultural insurance market?

- Factors affecting **demand** of agriculture insurance
 - Farmers risk aversion
 - Premium subsidy
 - Asymmetric information
 - Other means available to farmers to control risks
- Factors affecting **supply** of agriculture insurance
 - Type of weather risk (systemic risk is difficult to insure)
 - Data availability (high ambiguity load in premium calculation)
 - Administrative costs

Objectives



Government's objectives

- 1. Develop the agricultural insurance market in Georgia**
- 2. Support agricultural production and increase competitiveness of farmers and agribusinesses**
- 3. Support the income of people involved in agriculture and minimize their risks**

Sources: GoG, 2014; GoG, 2015.

Objectives



General Objectives	Specific Objectives	Indicator	Responsibility
1. Developing agricultural insurance market in Georgia	a. Increasing demand for agricultural insurance	amount of insured land	Public authority, insurance companies
	b. Developing affordable demand-driven insurance products	risks covered, premium rate (%), subsidy level (%)	Public authority, insurance companies
	c. Better technical capacity (loss adjustment, products development and delivery)	quality and number of loss adjusters, qualified underwriters, dedicated sales agents	Public authority, insurance companies
	d. Expansion of agricultural insurance business	average share of agroinsurance in total portfolio (%)	Insurance companies
	e. Reducing information asymmetry	improvements in data availability	Public authority, insurance companies

Objectives



General Objectives	Specific Objectives	Indicator	Responsibility
2. Support agricultural production and increase competitiveness of farmers and agrobusinesses	a. Increased agricultural production	Increase in agricultural output on insured land (%)	Public authority, farmers and agro businesses
	b. Increased investments in agricultural technology	Increased use agricultural inputs and technology (e.g., fertilizers/pesticides)	Farmers and agro businesses
	c. Increased access to finance	Yield insurance used as additional support to collateral	Banks and MFIs
3. Support the income of people involved in agriculture and minimize their risks	a. Reducing farmers' financial vulnerability	Timely loss indemnification	Public authority, Insurance companies

Results of stakeholder consultations



Meeting	G4G	APMA	Insurance companies	Farmers' Association	Agroinsurance International
Issues Discussed	<ul style="list-style-type: none"> - NAGIS versus NARMA; - KfW study; - direct and indirect stakeholders; - possible scenarios 	<ul style="list-style-type: none"> - Insurance is not a project and requires a separate treatment; - NARMA (a PPP) as an optimal solution; - Social aspects of agricultural projects; - Feedback to pilots 	<ul style="list-style-type: none"> - Level of government subsidies; - Clear targets regarding desirable penetration rate; - Clear long-term or at least mid-term government strategy; - Doubts about necessity of NARMA at this stage 	<ul style="list-style-type: none"> -Lack of qualified/ dedicated insurance sales agents; -Lack of representative offices - Lack of information sources about agro insurance 	<ul style="list-style-type: none"> -Functions and costs of NARMA; -Absence of weather data; -Importance of trainings; -Awareness raising campaigns

Policy Options



Policy option 1 (Baseline): Government does not introduce NARMA but continues with the current pilot.

Policy option 2: Government adopts and develops NARMA model.

Policy option 3: Government continues for one (or two) years with the pilot (with some changes in restrictions) and adopts NARMA afterwards.

Policy Options



Policy option 4: NARMA managed by APMA.

Policy option 5: Government manages completely agricultural insurance program, by establishing a state owned agricultural insurance company.

Policy option 6: Only private insurance companies manage agricultural insurance program.

Policy option 7: No agricultural insurance at all. Government pays *ad hoc* disaster payments.



Thank you!



Policy Options



- Select 3-4 most preferable options, discard the rest
- List main advantages and disadvantages of selected options

Pending questions



- What will be the legal structure of NARMA?
- Changes in level of subsidies in NARMA model
 - 5 years no change
 - 3 years no change, decrease afterwards
- 7% of premiums
 - Covers NARMA budget
 - Excess funds available → catastrophic fund
- Participation fee
- ...

Outlook



Stakeholder	Cost	Benefit
Farmer	Premium paid	Indemnity (mln.GEL)
Insurance companies	Operational costs Reimbursed losses Profit tax	Gross Premium (mln.GEL)
State	Premiums paid Administrative costs	Ad hoc payment Profit tax

- Increase in agricultural output on insured land
- ...
- ...

Pilot Insurance Programs



Regional statistics

Region	Number of Policies Sold		Total Premiums (GEL)		Insured Area (ha)	
	2014	2015	2014	2015	2014	2015
Adjara	8'520	864	1'647'864	160'029	2490,65	286,43
Guria	6581	212	1'404'976	2'683	2'173	108
Imereti	8	76	3'647	5'377	8	29
Kakheti	4'084	1'165	7'379'081	1'063'542	9'645	1'441
Mtskheta-Mtianeti	24	15	74'844	5'479	125	29
Racha-Lechkhumi	1		10'736		21	
Samegrelo	1'127	548	423'346	180'017	995	485
Samtkhe-Javakheti		210		222'009		245
Kvemo Kartli	207	98	531'797	49'933	1'862	103
Shida Kartli	400	251	1'027'493	310'539	1'277	386

Source: Agricultural Projects Management Agency (APMA)

References



- Agricultural Projects Management Agency (APMA)
- Coble, K.H. and Barnett, B.J. (2012). Why So We Subsidize Crop Insurance. *American Journal of Agricultural Economics* 95 (2): 498-504.
- GoG (2014). Government decree on measures to be implemented for agricultural insurance. Decree № 1462. Government of Georgia (GoG), Tbilisi, August 19, 2014.
- GoG (2015). Government decree on the approval of agricultural insurance program. Decree № 306. Government of Georgia (GoG), Tbilisi, February 19, 2015.
- Mahul, O. and Stutly C. (2010). *Government Support to Agricultural Insurance: Challenges and Options for Developing Countries*. Washington DC: The World Bank.