

Chapter-1: Introduction

1.1 Background

1.1.1 To insure the farming community against various risks like natural calamities, pests and disease that lead to partial or full failure of crops, the Government of India (GOI) introduced Comprehensive Crop Insurance scheme (CCIS) in the financial year 1985-86. CCIS was replaced by National Agricultural Insurance Scheme (NAIS) from *Rabi*¹ season 1999-2000.

1.1.2 NAIS was to provide comprehensive risk insurance to cover yield losses arising out of non-preventable natural risks including pests and diseases. The scheme was optional for state governments² and covered all crops including food crops, oilseeds, commercial crops and horticultural crops. The scheme was available to all farmers (including sharecroppers and tenant farmers) growing the notified crops in the notified areas³. In the case of food and oilseeds crops, the scheme provided for different rates of premium for different crops and seasons, or actuarial premium, whichever was less. In the case of commercial and horticultural crops, the scheme provided for actuarial premium. The scheme was compulsory for loanee farmers (i.e., those availing crop loan from scheduled financial institutions for the notified crops and areas), and voluntary for non-loanee farmers. General Insurance Corporation of India (GIC) was the Implementing Agency (IA) till 31st March 2003, and thereafter, Agriculture Insurance Company of India Limited (AIC) was appointed as the IA. The scheme provided for subsidy in premium to small and marginal farmers⁴ to be shared equally by GOI and state governments. Claims were to be borne by the IA up to 100 *per cent* of premium in case of food crops and 150 *per cent* premium in case of annual commercial/horticulture crops, and beyond this limit, claims were to be shared equally by GOI and the States. States however, had the option to extend to additional premium subsidy over and above the subsidy prescribed in the scheme. NAIS was replaced with National Crop Insurance Programme (NCIP) with effect from *Rabi* season 2013-14. However, at the request of states, NAIS continued till *Rabi* season 2015-16.

¹ '*Rabi* season' crops are grown during winter and harvested in April and May and include wheat, barley, mustard, etc.

² 'States' include Union Territories throughout this report.

³ At the beginning of each crop season, the state government is required to notify the crops and defined areas for the specified insurance scheme.

⁴ A 'small farmer' is a cultivator with a land holding of 2 hectare (5 acres or less). A 'marginal farmer' is a cultivator with a land holding of 1 hectare (2.5 acres or less).

During the period from *Kharif*⁵ season 2011 to *Rabi* season 2015-16, 9.41 crore farmers were insured and 2.96 crore farmers received claim benefits. GOI and state governments released premium subsidy of ₹ 1,410.50 crore towards small and marginal farmers during the period from *Kharif* 2011 to *Rabi* 2015- 16.

1.1.3 In addition, GOI launched a Weather Based Crop Insurance Scheme (WBCIS) on pilot basis⁶ from *Kharif* season 2007. WBCIS insured farmers against major weather perils and was implemented along with NAIS in the pilot states. WBCIS was applicable to all farmers but compulsory for loanee farmers on payment of actuarial premium, with premium subsidy ranging from zero to 50 *per cent* to all farmers irrespective of their holdings (depending on the premium slab rate) to be equally shared between GOI and the states. States however, had the option to extend additional premium subsidy over and above the subsidy prescribed in the scheme. Claims were to be paid entirely by the insurance companies. In addition to AIC, GOI empanelled and appointed private insurance companies as IAs. WBCIS became part of National Crop Insurance Programme (NCIP) from *Rabi* season 2013-14. During the period from *Kharif* season 2011 to *Kharif* season 2013 (period of pilot implementation), 3.41 crore farmers were insured and 2.40 crore farmers received claim benefits. As part of NCIP, 2.49 crore farmers were insured under WBCIS and 2.02 crore farmers received claim benefits during the period from *Rabi* season 2013-14 to *Rabi* season 2015-16.

1.1.4 GOI implemented the Modified National Agricultural Insurance Scheme (MNAIS) on pilot basis in 50 districts all over the country from *Rabi* season 2010-11. Between *Kharif* season 2011 to *Kharif* season 2013, MNAIS insured 0.66 crore farmers, of whom 0.19 crore farmers received claim benefits.

1.1.5 Commencing from *Rabi* season 2013-14, GOI launched NCIP throughout the country as an umbrella scheme covering MNAIS and WBCIS, where premium was to be charged on actuarial basis with subsidy ranging from zero to 75 *per cent* (depending on the premium slab) to all farmers irrespective of their holdings to be shared equally by GOI and the states. States however, had the option to extend the additional premium subsidy over and above the

⁵ *Kharif* season crops are grown during the monsoon months and harvested in October and November and include rice, maize, millet, cotton, etc.

⁶ Implemented in 11 States (including Maharashtra and Rajasthan which have been selected for detailed scrutiny in this report).

subsidy prescribed in the scheme. All claim liabilities were to borne by the IAs. At the request of some state governments, NAIS continued along with the WBCIS component of NCIP till *Rabi season* 2015-16. Between *Rabi season* 2013-14 to *Rabi season* 2015-16, under MNAIS, 2.06 crore farmers were insured and 0.64 crore farmers received claim benefits.

1.1.6 GOI launched the Pradhan Mantri Fasal Bima Yojana (PMFBY) and the Re-structured Weather Based Crop Insurance Scheme (WBCIS) from *Kharif season* 2016, replacing NAIS and NCIP. This scheme is primarily an amalgamation of NAIS and MNAIS. Re-structured WBCIS is the revised version of WBCIS. The schemes covers both prevented sowing/planting risk and post-harvest losses. The IAs (AIC and other empanelled private insurance companies) are selected by the concerned state governments through bidding.

Detailed comparison of features of all these schemes are at **Appendices A and B**.

1.2 Role of various entities

1.2.1 Government of India

Department of Agriculture, Cooperation and Farmers' Welfare (DAC&FW) in the Ministry of Agriculture and Farmers' Welfare is the apex authority responsible for overall implementation of the schemes and release of GOI share of premium subsidy (in all schemes) and financial liability towards insurance claim over and above 100 *per cent* of premium collected by AIC (in respect of NAIS).

1.2.2 Implementing agencies

As per the operational guidelines of schemes, IAs i.e., AIC as well as other empanelled private insurance companies were responsible for providing crop insurance to farmers under the agriculture crop insurance schemes. IAs are not required to deal directly with the loan disbursing points and instead deal only with nodal points (of the concerned Bank/Financial Institutions) mostly at district level. IAs are required to receive details of insured farmers from the nodal points, and calculate the claims, if any. In the case of MNAIS and WBCIS, the private insurance companies forward the claims for premium subsidy to AIC, which in turn, include their own premium subsidy claims and approach GOI and state governments for release of their shares. In respect of NAIS, AIC approaches GOI and state governments for their share of premium

subsidy and claim liabilities. On receipt of funds from GOI and state governments, AIC releases the premium subsidy to the private insurance companies (in respect of MNAIS and WBCIS) and claim amounts (in respect of NAIS) to the nodal points.

1.2.3 State governments

The State Agriculture and Horticultural Departments are the apex authorities responsible for implementation of the schemes in the state. At the beginning of each crop season, the state governments notify the crops and defined areas to be covered during the season (and premium rate in cases of MNAIS and WBCIS) in accordance with the decision of the State Level Coordination Committee on Crop Insurance (SLCCCI), headed by the Agricultural Production Commissioner or equivalent. The state governments also provide yield data after carrying out requisite numbers of Crop Cutting Experiments (CCEs)⁷ to insurance companies within stipulated dates specified in the notifications.

District Level Monitoring Committee (DLMC) headed by the District Magistrate monitors implementation of the schemes and conduct CCEs in the district.

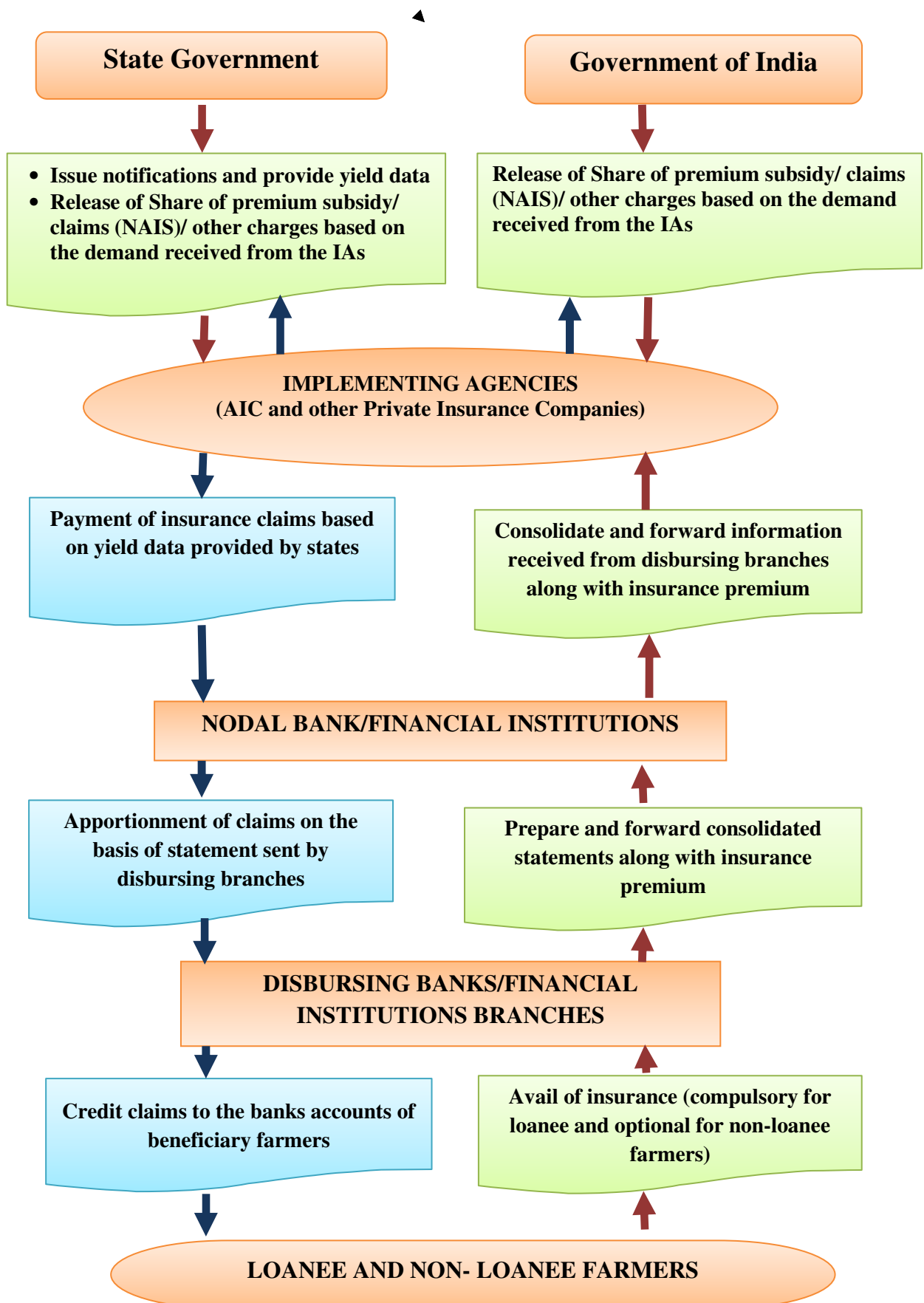
1.2.4 Bank/Financial Institutions (FIs)

Banks and FIs provide loans to farmers, collect farmers' share of insurance premium, prepare consolidated statements on various categories of farmers and forward the same to the nodal point along with the insurance premium. Disbursing branches maintain the records of proposal forms and other relevant documents for verification by DLMC or representatives of IAs. The nodal branches at District Headquarters submit crop-wise/ area-wise monthly crop insurance declarations to IAs in prescribed formats. Banks receive 4 *per cent* of the premium collected from farmers as service charges.

Flow **Chart-1** explains the above.

⁷ Experiments to assess the crop yield in notified/ specified areas

Chart No. 1- Flow chart of documents & information



1.3 Audit objectives

Performance audit was carried out to verify whether:

- Funds were provided adequately and in timely manner to ensure effective and economic utilization;
- The crop insurance schemes were implemented effectively; and
- Effective control systems exist to monitor the schemes.

1.4 Audit scope and sampling

The performance audit of agriculture crop insurance schemes was conducted in the DAC&FW, AIC and nine selected states, (Andhra Pradesh, Assam, Gujarat, Haryana, Himachal Pradesh, Maharashtra, Odisha, Rajasthan and Telangana) for the five year period commencing from *Kharif season* 2011 till *Rabi season* 2015-16. The selection of states, districts, blocks and villages was done by following procedure:

Table 1: Criteria for selection

Particulars	Criteria for selection
States	The nine states were selected on the basis of claims approved.
Districts	15 <i>per cent</i> of the districts within a state, subject to a minimum of two and maximum of ten were selected by PPSWOR ⁸ method. In all, 33 districts were selected as detailed in Annex-I .
Blocks/talukas/sub-districts	Two blocks under the sampled districts were selected by SRSWOR method ⁹ .
Villages	Three villages in each sampled block in the district were selected through systematic sampling.
Farmers	Scrutiny of records of farmers covered under the schemes was carried out along with field surveys on random sampling basis.

⁸ Probability Proportional to Size Without Replacement

⁹ Simple Random Sampling Without Replacement

1.5 Audit methodology

Agriculture crop insurance schemes (NAIS, MNAIS and WBCIS) have been implemented in 26 States and 2 Union Territories. Three states¹⁰ and five Union Territories¹¹ did not participate in any of the schemes.

The performance audit commenced with an “Entry Conference” with DAC&FW on 19 April 2016 wherein the audit methodology, scope, objectives and criteria were discussed. The performance audit process consisted of examination of relevant records at the DAC&FW, AIC and its Regional offices, State Agriculture/Horticulture departments, districts/talukas, and banks at village level.

After conclusion of audit and the consolidation and analysis of audit findings, the draft report was forwarded to DAC&FW on 31 October 2016. DAC&FW has furnished interim replies to the draft report which have been suitably incorporated in the report. Exit Conference with DAC&FW was held on 16th February 2017. Exit Conferences have been held with the concerned state governments, where state specific findings were discussed.

1.6 Audit criteria

The following are the sources for the criteria adopted in the performance audit:

- Scheme guidelines issued by DAC&FW on NAIS, MNAIS and WBCIS.
- Orders, notifications, circulars, instructions issued by GOI and state governments.
- Evaluation Reports/survey reports of the schemes.
- General Financial Rules, 2005 and States’ General Finance and Accounting Rules.

1.7 Acknowledgement

Audit acknowledges the cooperation and assistance extended by the DAC&FW, State Agricultural/Horticulture Departments, AIC, other implementing agencies and their officials during conduct of this performance audit.

¹⁰ Arunachal Pradesh, Nagaland and Punjab

¹¹ Chandigarh, Daman and Diu, Dadra and Nagar Haveli, NCT Delhi and Lakshadweep