RESULTS OF THE AGRICULTURAL INSURANCE INTRODUCTION PROGRAM AND DEVELOPMENT OPPORTUNITIES IN THE REPUBLIC OF ARmenIA

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ABSTRACT

In order to reduce climate risks and ensure sustainable development of agriculture, the agricultural insurance system has been introduced and effectively operates in different countries of the world. In 2019, the Government of the Republic of Armenia approved a program for the introduction of agricultural insurance. The article analyzes in detail the results of the pilot program of agricultural insurance in the Republic of Armenia, according to the issues of crops, risks, damage assessment, compensation, as well as the development of agro-culture, outlines the steps to be taken for the further development of the system.

Key words: insurance contract, agro-culture, insurance product, insurance risk

Agriculture is one of the key sectors of the country’s economy, which has provided about 15% of the gross domestic product for the last 5 years. Agricultural production is mainly an open-air activity, which directly depends on climatic, anthropogenic and economic factors. Agriculture, in addition to economic risks, incurs losses due to natural disasters, particularly from dangerous meteorological phenomena (drought, hail, frost, hot dry wind), the frequency and intensity of which have been increasing in recent decades due to climate change. In the last 7-8 years in the Republic of Armenia the damage caused to agriculture by natural disasters amounted to more than 120 billion Armenian drams.

In order to mitigate climate risks and ensure sustainable development of agriculture, the agricultural insurance system has been introduced and effectively operated in different countries of the world. At the same time, the analysis of international experience shows that due to the peculiarities of agriculture, the state directly supports insurance of the risks of economic entities in the sector. This is due to the fact that the sector is highly risky, which makes it less attractive for insurance companies. In order to reduce the risks of insurance companies in almost all countries of the world agricultural insurance is provided with the financial support of the state, mainly through subsidized insurance premiums.

Extensive work has been carried out in the Republic of Armenia since 2014 with the support of KfW (German Development Bank) in order to study the possible ways and obstacles of the introduction of this agricultural risk insurance system in the Republic of Armenia. “Business-Financial Consulting” (BFC consulting) Swiss company was delegated to conduct a comprehensive study on the introduction of the insurance system. For the implementation of the program, the Government of the Republic of Armenia approved (Protocol Decree N 52 of 14 December, 2017) Grant Agreement No. 201668458 between the Republic of Armenia (in the person of the Ministry of Finance of the Republic of Armenia) and KfW in the amount of 5339139.38 Euros for the Agricultural Insurance Scheme Support Program, as a result of which “Agricultural Insurers National Agency” NGO was established, which carries out the current

1 Data collected from Regional Councils (Marzpetarans)
management and development of the agricultural insurance sector, coordinating and organizing work with the main beneficiaries (public administration, local self-government bodies, Central Bank of Armenia, organizations registered in the Republic of Armenia or international or foreign organizations, insurance companies registered and licensed in the Republic of Armenia, etc.).

In addition, emphasizing the importance of introducing the agricultural insurance system, the pilot program for the introduction of the insurance system in the agricultural sector was approved by the RA Government Decree N 1485-L of October 24, 2019. In the framework of this program, apricot, grape, peach and apple orchards and sown areas of grain crops (autumn/spring wheat, barley and oats) are insured from 2 risks: hail and fire, spring frost. Insurance of apricot and grape from hail and fire covers 6 Marzes (regions): Armavir, Ararat, Aragatsotn, Tavush, Kotayk, Vayots Dzor. Insurance of apricot and grape from hail and fire risks covers 6 Marzes: Armavir, Ararat, Aragatsotn, Tavush, Kotayk, Vayots Dzor; and insurance of peach, apple and grain crops (autumn/spring wheat, barley, oats) includes all Marzes of the Republic of Armenia. Insurance for apricot, grape and peach from spring frost risk covers Armavir and Ararat Marzes. Within the framework of the program, at least 50-60% of the insurance premium is subsidized. The insurance process is carried out by insurance companies that have expressed intention to participate in the implementation of this program. To ensure the process of insurance for the agricultural year of 2020, 3 insurance companies participated in the program: Rossgosstrakh Armenia, Sil Insurance, Ingo Armenia.

According to the Agricultural Insurers National Agency, 1546 contracts were sold for the agricultural year of 2020 (the number of insurance contracts by risk and crop is presented in Chart 1), the total number of accrued insurance premiums is about 130.5 million Armenian drams and the subsidized amount is about 69 million Armenian drams. As a result of the concluded contracts, the area of insured orchards and sown areas was about 2500 ha (distribution by crops and Marzes is presented in Charts 2 and 3).
The results of the insurance for the agricultural year of 2020 show that the entities involved in agriculture of Armavir, Shirak and Lori Marzes participated in the program more actively. Most often, farmers insured grain against the risk of hail and fire.

The introduction of the agricultural insurance system is a new agro-culture in the sphere, so the results of the first year of the program could not be high. In this regard, it is necessary to organize large-scale information and consulting campaigns on the program and insurance results, which will promote increase of the number of program beneficiaries in coming years.

Moreover, our studies and personal observations (visits to farms, telephone calls, meetings with citizens) show that the results of 2020 are generally satisfactory, most of entities are satisfied with both the damage assessment and compensation process, and they have intention to participate in the program next year also.

The results of the first year of the program are very important, because the entities, seeing that compensation is provided for the insured areas in the neighboring farm, which covers the expenses incurred, allows the economic entity to organize agricultural production next year, they want to insure their areas as well. This is very important.

In previous years, in case of natural disasters, the state provided small sums of money as compensation, which did not allow the villagers to carry out agricultural activities next year, and the existence of a cost insurance system allows them to continue their agricultural activities and to acquire working capital without having financial means.

In particular, as of 30.09.2020, insurance companies received 348 applications for compensation due to insurance accidents, as a result of which 223 insurance compensations in the amount of 116624552 Armenian dram were provided. The compensation process continues and until the end of the year this indicator will increase.

In general, studying the results of the pilot program of state support for the introduction of the agricultural insurance system of the Republic of Armenia, we think that the role of the program in the sustainable development of agriculture is great; and in the near future measures should be taken to introduce a system in cattle-breeding sector and to launch new insurance products. Particularly, based on the results of the pilot program, in the future, crop insurance should be introduced in parallel with cost insurance.

**LITERATURE**

1.”State support for the implementation of a pilot program for the introduction of an insurance system in the field of agriculture.”, https://mineconomy.am/page/1452