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# Climate Insurance for Dry Zone Farmers in Sri Lanka: Prospects for Index Insurance

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# Executive Summary

Increasing climate related risks in Sri Lanka pose significant challenges for farming communities, especially those in the dry zone. This calls for the need of having effective risk management strategies in place, in order to minimise the cost of escalating climate related risks.

Climate insurance is being increasingly viewed as a possible tool for managing climate risks. This study aims to shed light on the existing policy gaps in the area of climate risk management in general and climate insurance as a tool of risk management more specifically. The study assesses the problems and constraints in the existing climate insurance programmes and technical feasibility for index-based solutions. The assessment is based on quantitative data collected through a survey of 750 farmers in the Anuradhapura district and qualitative information gathered through focused group discussions and key informant interviews.

Climate risks have been covered under crop insurance schemes in Sri Lanka for several decades, which are in the form of indemnity-based insurance. However, few

farmers adopted insurance as a risk management strategy. During the period of 1998 - 2017, less than 3 % of paddy cultivated areas has been covered by the existing crop insurance programmes. A major portion of crop insurance is obtained as a guarantee for obtaining loans from financial institutes that operate at the formal level. Poor awareness on insurance and lack of trust on insurance providers have been identified as major reasons for not adopting insurance as a risk management strategy. The study finds that the major risk management strategy of farmers is borrowing loans, mostly from informal sources. Climate insurance can be adopted as an effective tool for improving the farmer's ability to repay agricultural loans in the event of climate-induced disasters.

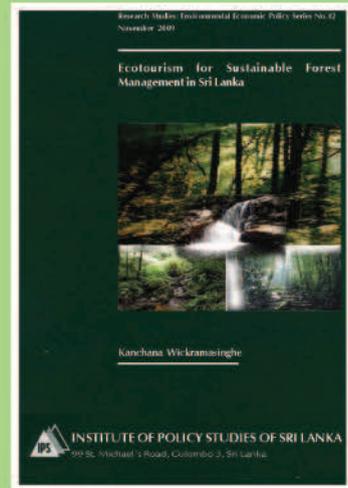
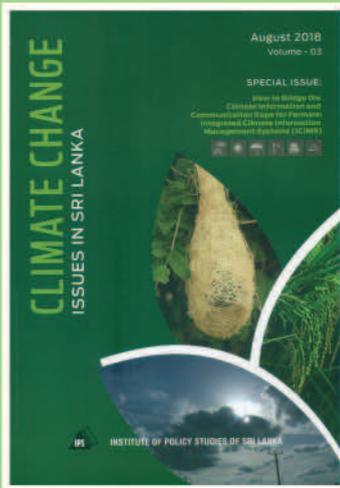
Index insurance is increasingly being recognised as an innovative approach to eliminate issues in the existing indemnity-based approach. An assessment conducted based on the information gathered on specific bad years faced by the farmers and rainfall anomalies depicted by the Climate Hazards Group InfraRed Precipitation with

Station (CHIRP) shows that implementing rainfall index insurance is technically feasible in Sri Lanka.

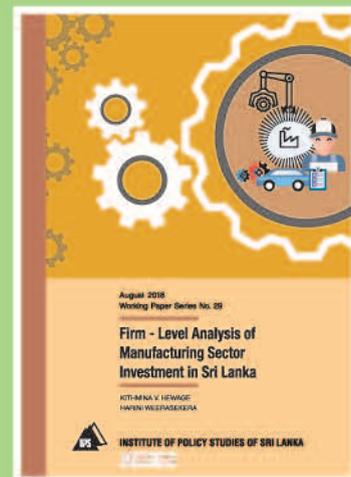
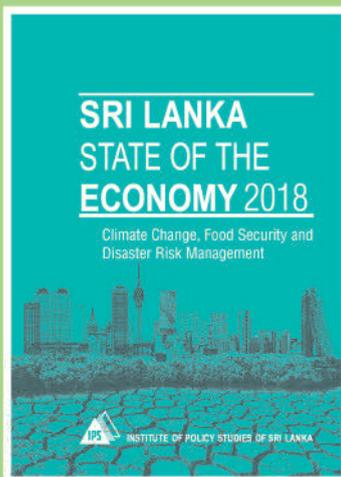
Comprehensive education and awareness programmes are needed to educate farmers about the concept and potential benefits of climate insurance. Further, implementation of index insurance is challenged in Sri Lanka to a greater extent due to absence of adequate number of rainfall stations and high level of microclimatic variations. The available number of weather stations maintained by the Department of Meteorology is not adequate to implement a sustainable index insurance programme.

The study recommends increasing the number of rainfall stations and establishing an effective mechanism for sharing rainfall information among the insurance providers. The private interventions and community-based approaches in establishing and implementing rainfall stations should be encouraged and effectively linked to the proposed data sharing mechanism.

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