

Fiscal Governance  
Reforms at  
District Level for  
Improving Fund  
Flow and  
Utilisation in  
Development  
Schemes

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Notes from the  
Districts: 4



# Coordination Among Multiple Agencies at the District Level Can Deliver Better Results: A Case from East Singhbhum, Jharkhand

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January 2020

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**Authors:** Shweta Tiwary, Nilachala Acharya, Mampi Bose

**Research and editorial inputs:** Protiva Kundu, Asadullah, Paresh J M, Akhil Rokade, Shruti Yerramilli, Joshua Mathias

**Series editors:** Poornima Dore, Subrat Das

**Designed by:** How India Lives ([www.howindialives.com](http://www.howindialives.com))

**Cover illustration:** Vikram Nayak

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## About Pradhan Mantri Fasal Bima Yojana (PMFBY)

The PMFBY is a crop insurance scheme that covers kharif, rabi, commercial and horticultural crops. According to the scheme guidelines, premium charged for kharif crops is 2 per cent, and, for rabi crops, it is 1.5 per cent of the sum insured<sup>1</sup>. For annual commercial and horticultural crops, the premium is 5 per cent of the sum insured. In general, the sum insured is stipulated to be equal to the scale of finance fixed by the District Level Technical Committee (DLTC) for a particular crop. This may extend up to the value of the threshold yield of the insured crop if that option is exercised by the farmer who is insured. If the value of the threshold yield is lower than the scale of finance, then the higher amount shall be the sum insured and accordingly, the premium amount would vary.

To provide crop insurance to the farmers at subsidised rates, the remaining share of the premium (after the farmers' premium payments) is borne equally by the Central and the respective state governments. The enrolment under the PMFBY scheme, subject to possession of an insurable interest on the cultivation of the notified crop and area, is compulsory for the following categories of farmers:

- Farmers in the notified area who possess a crop loan account / Kisan Credit Card (KCC) account (referred to as loanee farmers) to whom credit limit is sanctioned / renewed for the notified crop during the crop season
- Other farmers who might be included at the discretion of the government, also known as non-loanee farmers.

This scheme covers post-harvest losses (cost involved from the process of crop cutting in the field to its transportation to the storage area for a duration of 15 days), provides farm level assessment for localised calamities including hailstorms, unseasonal rains, landslides and inundation to address the problems and weaknesses of the erstwhile crop insurance schemes such as the National Agriculture Insurance Scheme (NAIS) and the Modified National Agriculture Insurance Scheme (MNAIS). In MNAIS, the premium was capped at 8 to 12 per cent of the sum insured to limit the government's subsidy outgo. Thus, for crops for which the actuarial rates were high (that is, the premiums were steep), insurance companies proportionally reduced the sum insured. The 'compensation' often fell way short of even the farmer's cost of production. The PMFBY has done away with this cap on premium and is considered to be a fairly good crop insurance scheme at present.

The sum insured per hectare for a farmer is now decided by the DLTC and is pre-declared and notified by the State Level Coordination Committee on crop insurance. The premiums would be decided on an actuarial basis, which would give credibility to the entire process. The use of technology such as smartphones, drones and satellites to ensure accuracy, transparency and faster assessment of damages and settling claims has been proposed to be included under the scheme guidelines. In an ideal scenario, farmers would be compensated for any losses in crop yield. In the event of a crop loss, the farmers will be paid based on the difference between the threshold yield and the actual yield, where the threshold yield is calculated as the average of the crop yield per hectare for the past three years in the notified area.

In East Singhbhum, the PMFBY covers farmers for both the kharif and the rabi seasons. Crops insured under the kharif season are paddy and maize while

<sup>1</sup> The sum insured is arrived at by multiplying the Notional Threshold Yield with the Minimum Support Price (MSP) of the current year. For details see: [http://www.aicofindia.com/AICEng/General\\_Documents/Product\\_Profiles/PMFBY/PMFBY.pdf](http://www.aicofindia.com/AICEng/General_Documents/Product_Profiles/PMFBY/PMFBY.pdf)

wheat, potato, mustard and gram are covered under the rabi season.

## Why We Did It

The implementation of the PMFBY has faced criticism for being ineffective in protecting farmers against the exorbitant costs associated with cultivation and reducing distress caused by crop failure as well as damages caused due to unforeseen phenomena. Enrolment under the scheme at the all India level decreased from 40.3 million in 2016 to 34.8 million in 2017 and further to 33.3 million in 2018 (until the kharif season) due to delay in settlement of claims and assessments of crop failure<sup>2</sup>. However, the states' funding has been increasing over the years, with some experts concluding that insurance companies are benefiting from their arrangement with the Agriculture Insurance Companies (AICs).<sup>3</sup> Moreover, it was found that the Central and state governments had been causing delays in transferring premium subsidies, creating a backlog of payments for up to three crop seasons. This led to inordinate delays in the fund flow process<sup>4</sup>, which delayed the settlement of claims by the farmers, reducing the extent of fund utilisation under the scheme.

Further, Bhusan and Kumar (2017)<sup>5</sup> flagged a number of challenges and issues related to policy design and implementation of the scheme. Deduction of premium money twice or wrongful debiting of money from farmers' accounts under the scheme are some of the common issues<sup>6</sup>. At times, banks deduct premium from farmers' accounts

for non-notified crops but no compensation is given in case of damages. Farmers will not get compensation if their crops are damaged in such cases. Several such instances were reported in Haryana, Madhya Pradesh and Uttar Pradesh. It has also been documented that the banks often deduct premium amount for crop loans without the farmers' consent (Bera. S, 2019). Banks have also been found to utilise the premium amount to insure their loans and the farmers who have availed crop loans are often forced into enrolling for crop insurance. Farmers are rarely issued receipts on the payment of premiums. Further, it has also been documented that erroneous bank account details is one of the reasons for delays in claim settlement (Joshi. B, 2018)<sup>7</sup>.

In the above context, this note documents the possible reasons for procedural delays in the transferring of premium subsidy from the government and delays in settling the claims submitted by the farmers under PMFBY in the East Singhbhum district. In addition, the note's objective is also to understand and document the role played by multiple intermediaries such as the Jharkhand Cooperative Bank, the Large Area Multi-Purpose Societies (LAMPS), and insurance agencies and implementing officers from the line departments at the district level in the process of service delivery.

## How We Did It

- Collected relevant information pertaining to PMFBY from the cooperative department and cooperative banks to understand the

2 Bera, S. (2019), "Enrolment under PMFBY crop insurance scheme sees steep decline", Livemint, Accessible at: <https://www.livemint.com/Politics/nF2FIK4pHjCzud5oMuphl/Enrolment-under-PMFBY-crop-insurance-scheme-sees-steep-decli.html>

3 Ibid.

4 Jain, S (2019), PMFBY: Insurance Companies in Rajasthan Haven't Received Govt. Premium Subsidies for 3 Seasons, Wire.in, Accessible at: <https://thewire.in/government/rajasthan-pmfby-insurance-government-premium-subsidy>.

5 Chandra Bhushan and Vineet Kumar, (2017), Pradhan Mantri Fasal Bima Yojana: An Assessment, Centre for Science and Environment, New Delhi.

6 However, in East Singhbhum the premium is collected by LAMPS in cash and they give receipt against the cash deposits. LAMP deposits the money in Jharkhand Cooperative Banks. It is however true that sometimes even after giving premium and depositing amount in the bank, the farmer is not insured. According to Bank Official the premium amount is not accepted at the portal of PMFBY (which is only meant for rural areas) as the area for which insurance premiums have been collected fall in semi urban areas.

7 Joshi, B (2018), Govt. Plans Workaround for Crop Insurance Delay, Deccan Herald, Accessible at: <https://www.deccanherald.com/state/drought-time-govt-plans-709165.html>

role of various agencies and to document the implementation challenges of the schemes in the district.

- Reviewed existing literature on scheme-related documents, guidelines, crop insurance reports generated by insurance companies and the district handbook for agriculture.
- Reviewed and analysed the information collected on budget related issues from Jharkhand and other states to understand the situation of crop insurance schemes and the bottlenecks in fund flow and utilisation.
- Conducted interviews with officials from Jharkhand Cooperative Bank and LAMPS, insurance agencies and implementing officers in the district to understand the bottlenecks faced at different layers and come up with possible solutions.

## What We Found

In East Singhbhum, the DLCC steers and monitors the functioning of the PMFBY. The Deputy Commissioner and the District Agriculture Officer are the chairperson and the convener of the DLCC, respectively. In DLCC meetings, only the scale of finance is presented by District Agriculture

Officer for a particular crop in a season. The scale of finance is the cost of cultivation of a particular crop per hectare, which includes all material and labour costs. It is the amount that is insured for a particular crop and farmers pay 2 per cent of this as premium.

Premium for various crops is collected in accordance with the agricultural season (rabi and kharif). The LAMPS, which are mainly functional in the scheduled areas and are registered cooperative societies under the District Cooperative Department, collect premium and deposit them in the cooperative banks. Besides this, LAMPS are also responsible for all communications related to PMFBY with the farmers, i.e. collection of premium from farmers, issuing of receipts to the farmers, submission of farmers' insurance proposals along with relevant documents such as Aadhaar card, photocopies of account details, land documents and verification of family history to the Jharkhand Cooperative Bank.

The cooperative banks in East Singhbhum district deal with claim settlements. During the process of calculation of the amount to be paid to the farmers, the gram panchayat has been considered as a single unit. The claims are calculated and settled on the basis of a crop cutting report initiated by the District Statistical Department for a particular crop

**Table 1: Status of Claim Payments to Farmers for Kharif Season 2017 in Select Bank Branches and Blocks of East Singhbhum District**

Name of the Branch	Name of the Block	Claims received		Claims settled		Balance	
		Number of farmers	Amount (In Rs lakh)	Number of farmers	Amount (In Rs lakh)	Number of farmers	Amount (In Rs lakh)
<b>Ghatshila</b>	Ghashila	1,567	13.52	1540	13.51	27	0.01
	Gurabandha	122	0.31	122	0.31	0	0
<b>Musabani</b>	Dumaria	529	40.95	516	40.23	13	0.71
	Musabani	1,793	18.09	1363	14.34	430	3.74
<b>Bistupur</b>	Potka	141	1.67	136	1.6	5	0.07
<b>Total</b>		<b>4,152</b>	<b>74.56</b>	<b>3677</b>	<b>70.01</b>	<b>475</b>	<b>4.54</b>

Source: Compiled from the Distribution report for Kharif season of 2017, prepared by Jharkhand State Co-operative Bank, Regional Office Chaibasa dated 30 March 2019.

**Table 2: Status of Premium Received from Farmers for Kharif Season 2016 by Jharkhand State Cooperative Bank Branches in Various Blocks of East Singhbhum**

Name of the Branch	Number of farmers	Total area (in acres)	Insured amount (In Rs lakh)	Premium amount (In Rs lakh)
Musabani	350	257.47	53.84	1.08
Jamshedpur	1,305	1,449.60	303.16	6.06
Ghatshila	4,813	6,061.51	1,267.69	25.35
Chakulia	2,786	4,354.91	910.77	18.22
Bistupur	3,385	4,311.05	901.60	18.13
Patamda	6,774	9,547.86	1,996.80	39.94
Musabani	4,156	5,630.45	1,177.52	23.55
Baharagora	6,404	9,289.54	1,942.77	38.86
<b>Total</b>	<b>29,973</b>	<b>40,902.39</b>	<b>8,554.14</b>	<b>171.18</b>

Source: Compiled from the PMFBY Kharif 2016 Branch wise Coverage Data report prepared by the Jharkhand State Co-operative Bank, Regional Office Chaibasa

in a particular gram panchayat. In the district, a team comprising the Block Agriculture Officer, the Junior Statistical Supervisor, the Circle Inspector, and the Block Cooperative and Extension Officer, calculates the claim amount based on random field visits of agricultural areas that are being considered for compensation.

Delays in payment of compensation to the farmers, particularly in Musabani and Gurabanda blocks in East Singhbhum, were noted. Our analysis of the Distribution report for the kharif season in 2017, prepared by the Jharkhand State Co-operative Bank Limited (Regional Office Chaibasa), dated 30 March, 2019, showed that there are pending claims by 475 farmers for crop insurance settlements (Table 1 on Page 5). This is a clear case of delay in payments of claims to farmers under the scheme.

It should be noted here that as per the revised operational guidelines of PMFBY (released on 18 September, 2018), release of the first instalment, which is equivalent to 50 per cent of the 80 per cent (of the respective share of the centre /

state) premium is 31 July for the kharif season (July-October) and 31 December for the rabi season (October-March). Release of the second instalment of government subsidy is provisioned to be submitted within 15 days of the approval of business statistics finalised on the national crop insurance portal, that is, approximately a month after the deadline of the release of the first instalment. Insurance companies are required to release claims for farmers affected by mid-season calamities as soon as they receive the payment of the farmers' share of premium and the first instalment of the government subsidy. Any admissible claims, based on post harvest losses are provisioned to be settled by banks after the second instalment of the government's subsidy is received. However, in practice, this fund flow process, as noted in Table 1, is getting delayed significantly.

Table 1 shows that out of the 4,152 farmers who were supposed to receive claims worth Rs 74.56 lakh, only 3,677 farmers received a total amount of Rs 70.01 lakh. As many as 475 farmers are still





waiting to receive a cumulative claim amount of Rs 4.54 lakh from the last kharif season. Of these 475 farmers, 430 farmers are from the Musabani block, which comes under the Jharkhand Cooperative Bank's local branch. These claims are pending for the last six months.

As per the Jharkhand State Co-operative Bank Limited's Bistupur branch report (dated, 12 April 2019), the total claimant amount of Rs 95.84 lakh by 2,062 farmers was pending. Of this, claims by 1,903 farmers totaling Rs 89.68 lakh has been released by the bank. However, the claim of 159 farmers amounting to Rs 6.2 lakh is still pending.

For 2016, the empaneled insurance company received a cumulative premium amount of Rs 171.18 lakh for a total insured amount of Rs 8554.14 lakh from various blocks in East Singhbhum. However, insurance claims for the kharif season of 2016 was released by the state to the enlisted insurance company on 26 December, 2018. This led to a delay in the process of claims settlements by the banks and the commission to be paid to LAMPS. Such delays in receiving incentives reduce the motivation of these multipurpose societies, which in turn, affects the inclusion of farmers under PMFBY.

## What They Have Shared: Voices of Stakeholders

There are several reasons furnished by the bank for the pendency of claims. This includes reasons such as the non-availability of bank account details and the failure on the part of the farmers to validate their Aadhaar numbers. However, despite these problems, some bank branches did not inform LAMPS to contact farmers whose claims were pending. Also, there has been a delay in the disbursement of funds for claims settlement for the kharif season in FY 2016-17 by the insurance agency. Banks received this amount only by the

end of December 2018. Bank officials shared that there are cases where farmers' entries in their records had not been done properly and that those entries be made manually by following up with the National Insurance Company (NIC). Some urban residents who own land in rural areas also register themselves under PMFBY to receive benefits if the panchayats declare drought and farmers become eligible to receive claims. The process of weeding out such irregularities also delays the process of claims settlement.

The LAMPS say that even if they process and submit the premium payments of farmers to the banks on time, the banks fail to upload their details promptly. The multi-purpose societies added that they follow up on irregularities (incorrect bank account number, Aadhar linking etc.) conveyed to them by banks and pursue farmers for correcting these issues. Despite this, the settlement of claims gets delayed. Also, the LAMPS said that they felt demotivated because of the delays in receiving their commissions.

Due to these reasons, the purpose of the PMFBY is not being served effectively in the district. Banks entrusted with the management of the insurance premiums and payouts, earn interest on the pending claim amounts of farmers. Also, the lack of coordination between the various parties involved and delays by banks and the LAMPS affect the settlement of claim amounts. Despite paying the premium on time, farmers have to suffer if there are damages to their crops. The delay in settlement of claims is among the major reasons for the reduction in the number of farmers opting for PMFBY in the district.

## Policy Actions

**1** The Union Government and State government, along with independent experts, should explore the possibility of revising the scheme guidelines to include a penalty on insurance companies or banks for delayed settlement of

claims. Farmers should receive 12 per cent interest on the claim amount for delays exceeding a certain number of weeks from the prescribed cut-off date. An appropriate non-lapsable fund should be created at the district level for this purpose.

**2** Various agencies do not have adequate knowledge of scheme guidelines, implementation procedures, their roles and responsibilities. Thus, there is an urgent need to conduct knowledge sessions for the agencies on a

regular basis by the district administration. Further, adequate budget should be provisioned, at various levels, to create awareness among farmers about the scheme benefits.





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# NOTES

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# Fiscal Governance Reforms at District Level for Improving Fund Flow and Utilisation in Development Schemes:

## Full List of Outputs

### Policy Briefs

1. Extent of Fund Utilisation in Social Sector Schemes: Does It Conceal More Than It Reveals?
2. Factors Constraining Fund Utilisation in Social Sector Schemes: An Overview
3. Delay in Fund Flow: Consequences, Causes and Remedies
4. Fund Flow Mechanisms of Centrally Sponsored Schemes in Social Sectors
5. Availability and Capacity of Human Resources for Implementing Social Sector Schemes
6. Rigid Norms and Guidelines Affecting Utilisation of Funds in Social Sector Schemes
7. Strengthening Budget Information Architecture at the District Level

### Notes from the Districts

1. District Mineral Foundation Trust (DMFT) Fund-A Potential Source to Address Resource Gaps in Development Schemes: A Case from East Singhbhum, Jharkhand
2. Revolving Fund Mechanism Can Address Problems Relating to Delayed Fund Flow in Schemes: A Case from Krishna, Andhra Pradesh
3. Unspent Funds Utilised by Expanding Beneficiary Coverage: A Case from Balasore, Odisha
4. Coordination Among Multiple Agencies at the District Level Can Deliver Better Results: A Case from East Singhbhum, Jharkhand
5. Enhancing Transparency and Accountability through DISHA Committee Meetings: A Case from Bolangir, Odisha
6. Online Treasury Portals Can Enhance Fiscal Transparency at the District Level: A Case from Chandrapur, Maharashtra

### Summary Report

Fiscal Governance Reforms at District Level for Improving Fund Flow and Utilisation in Development Scheme



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