The Emerging Role of Insurance in Sustainable Agriculture and Food Security: The Philippine Case *by Jo-Dann N. Darong*

It cannot be denied that agriculture is no longer playing a passive and supportive role in an economy. The large portions of the world's population is undeniably dependent on agriculture. Its active contribution to economic development has been magnified and recognized. It is also seen to have played an indispensable part in any overall strategy of economic progress. The International Fund for Agricultural Development (2011) estimated that there a large proportion of low-income farmers in about 500 million small-scale farms worldwide which support roughly 2 billion people. In emerging economies alone, GDP growth in agricultural sector "is up to four times more effective in reducing poverty than growth generated by other sectors" (IFAD, 2011). Subsequently, cultivating a favorable working environment for small farmers and protecting them from risks and vulnerabilities are of utmost importance.

Irrefutably, Philippines is one of the most hazard prone countries in the world. The frequency and severity of natural disasters has escalated progressively over the past decades that stood still against its economic progress. Disasters have disrupted social, environmental and economic development of the country. As risks becomes inherent in agriculture, these farmers are confronted with a number of market and production risks and most cases they face unpredictable natural catastrophe. The severe droughts, hurricanes, earthquakes and floods have critically challenged the developmental role of agriculture. Further, disasters are crucial causes of increased poverty and environmental degradation. The low-income, poor Filipino farmers who strive in risky environments have high vulnerability to numerous perils and least able to cope when crises occur. They need risk protection against distress, misfortune or contingent events such as but not limited to loss of agricultural crops and sustained drought and heavy rains.

However, risks can be managed and the effects can be mitigated through insurance schemes. In the light of climate change and increasing losses due to natural calamities, weather index-based insurance, more specifically parametric insurance, is gaining the necessary attention in agriculture development agenda. The interest in agriculture insurance stems from its probable positive influence on food security. As a result, the efforts in developing and delivering this type of insurance as well as improving access to it have become more influential. As a result, less developed and developing countries have envisioned for inclusive risk protection through Microinsurance (MI), a "sachet type of insurance" which has received increasing attention in the recent years. For the public sector, a number of MI regulatory and supervisory frameworks are laid down. For the business sector, the link between supply of MI products and MI clients through MI providers, entities, distributors and intermediaries is facilitated. The mainstream insurance industry has continued to grow in the Philippines. However, this is for naught since it did not translate to creating inroads in insurance consumption. Surprisingly, only few research studies touch on the developmental role of insurance in general and MI in particular.

This paper, with the theme “Protecting Farmers, Sustaining Agriculture and Securing Food”, delivers an impression of the current debates and developments in the agricultural insurance sector, with particular attention to the specific challenges faced by the newly-created Philippine Agricultural Microinsurance (MicroAgri) regulatory frameworks. Specifically, the paper underscores the pivotal basis on the emergence and development of weather index-based insurance (WII) scheme in the Philippines. The paper begins by presenting the context of insurance and microinsurance and by setting the tone for the discussion on WII.

Towards proposing a framework of analysis and action recommendations to further strengthen the agricultural insurance system, the paper explores in answering this question: Is WII program properly implemented in the Philippines and consequently addressed the insurance needs of the low-income, small-scale farmers? It further investigates three important issues: Are current MicroAgri products and services affordable, accessible and responsive to the very needs of the Filipino poor farmers; and How is bottom-of-the-pyramid business strategy as source of breakthrough innovation able to convince multinational companies to provide risk protection products and services to small-middle-class segments? Through combined qualitative and quantitative research analytics and approaches, the answers to these questions were surprising. MicroAgri offers a huge market potential. However, mainstreaming innovative development of products, modifying regulations and policies of supervision, driving financial and insurance literacy programs, optimizing use of distribution channels are highlighted as key drivers based on research.

RESEARCH OUTLINE

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