
Philippines: role of rural finance in addressing food security and climate change challenges



Nataliya Mylenko
Finance & Markets
World Bank Group

Philippines agriculture

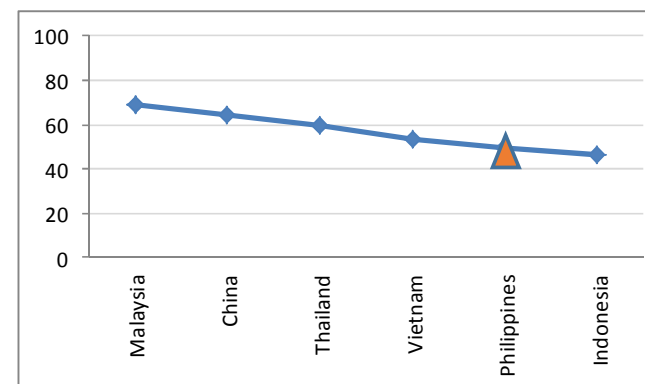
Agricultural Share in GDP/Employment	%	10 / 31
Government Agriculture Expenditure	% of total exp.	4.9 (2014)
Agricultural Land	mln hectares / % of total area	9.671 / 32.4
Arable Land	mln hectares / % of total area	4.963 / 16.55
Permanent Crop Land	mln hectares / % of total area	4.225 / 14.17
Pasture Land	mln hectares / % of total area	0.129 / 0.43
Forest Land	mln hectares / % of total area	0.074 / 0.25
Other Lands	mln hectares / % of total area	0.307 / 1.02
Area equipped for Irrigation	% of agricultural area	16.0
Export (Top 4: Coconut oil, banana, tuna, pineapple)		6,318
Agro-food Trade	mln US\$	
Import (Top 3: Wheat, soybean, milk products)		7,802
Stunting	%	33.4

Source: PSA, 2013; land area, 2002 CAF, 2015 FNRI

Food Security Scores

Affordability: 44.4 • Availability: 53.4 • Quality and Safety: 50.8

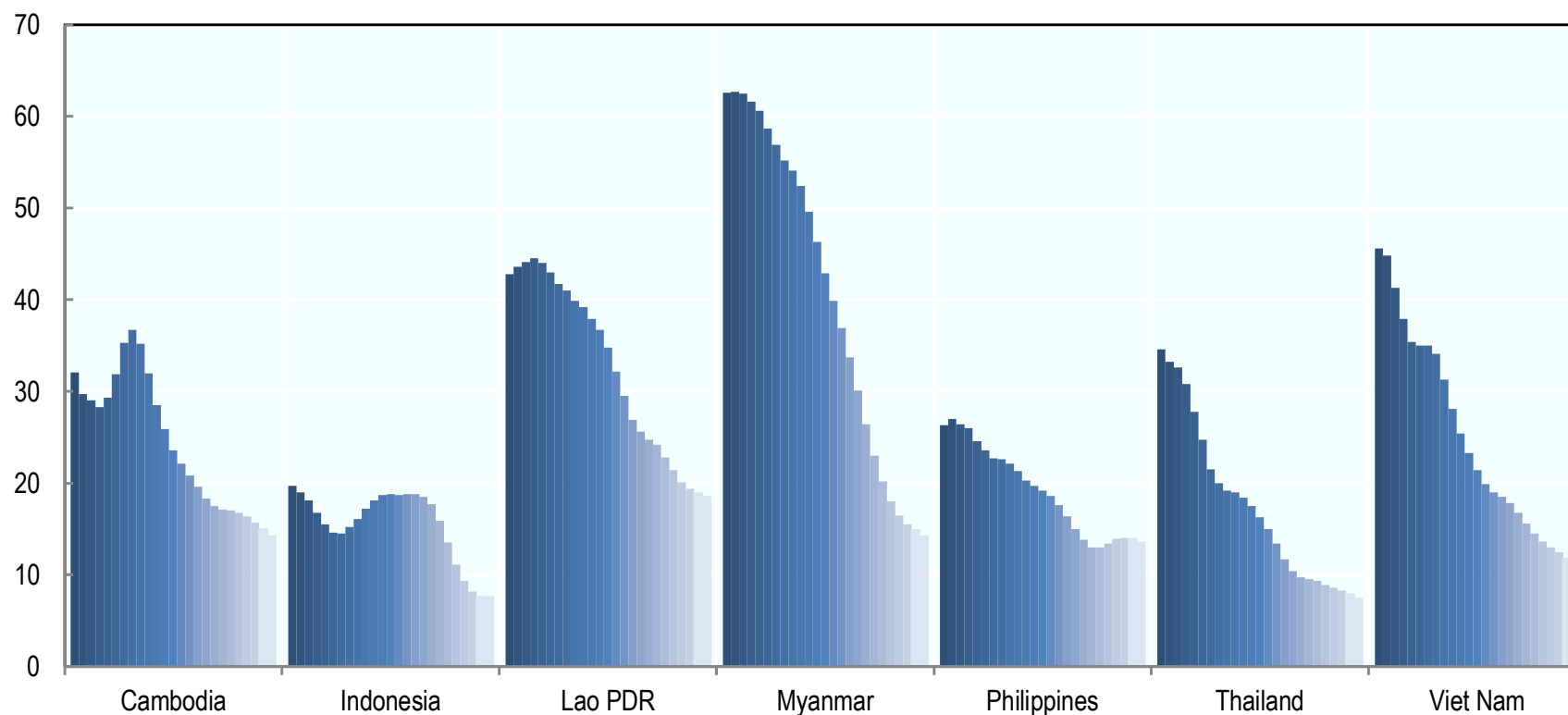
Total Score: 49.4



Source: The Global Food Security Index, The Economic Intelligence Unit – foodsecurityindex.eiu.com

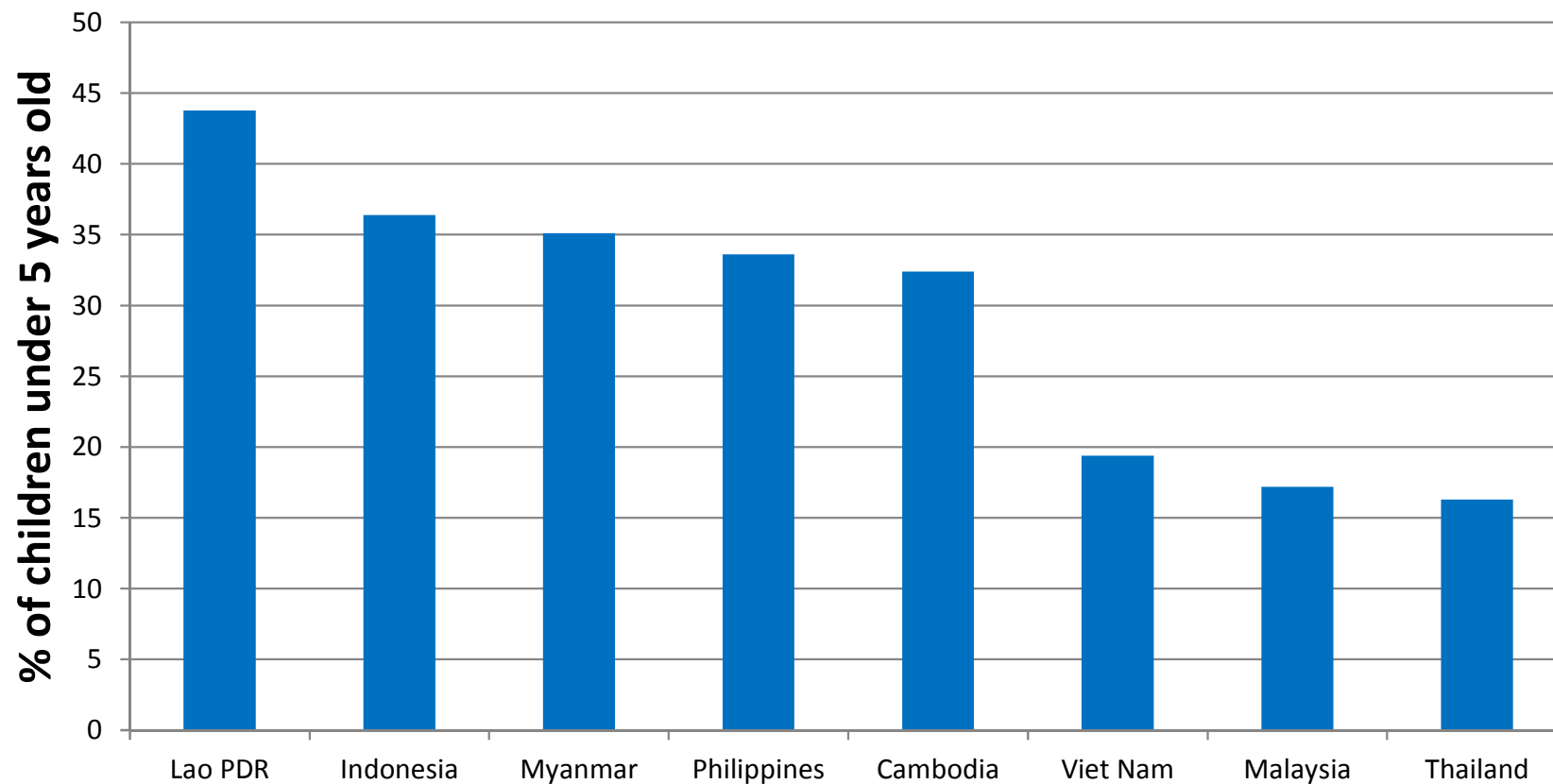
Undernourishment has declined in ASEAN countries

Prevalence of undernourishment (3-year moving average) 1990 to 2016



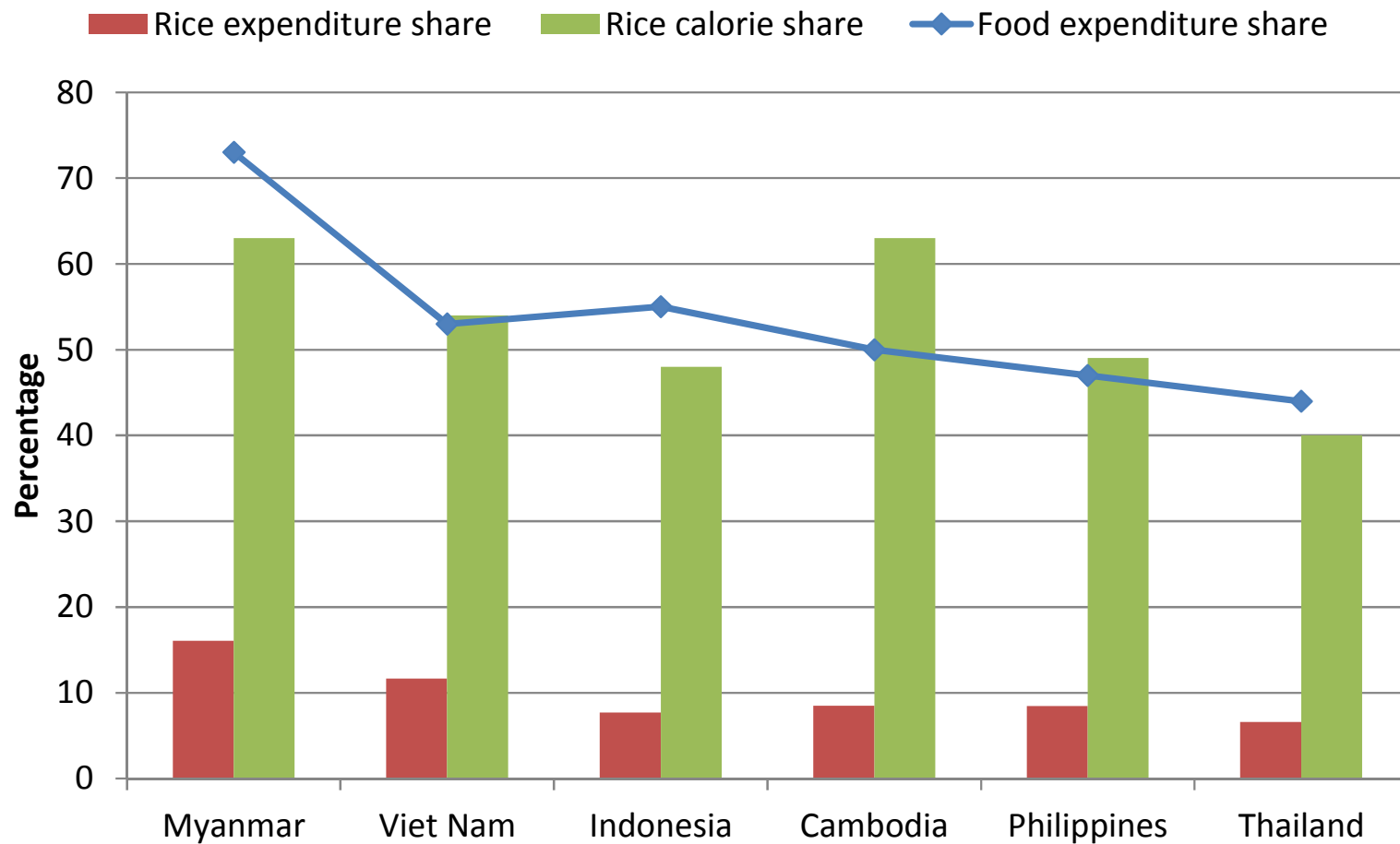
But prevalence of malnutrition remains high

Prevalence of child stunting

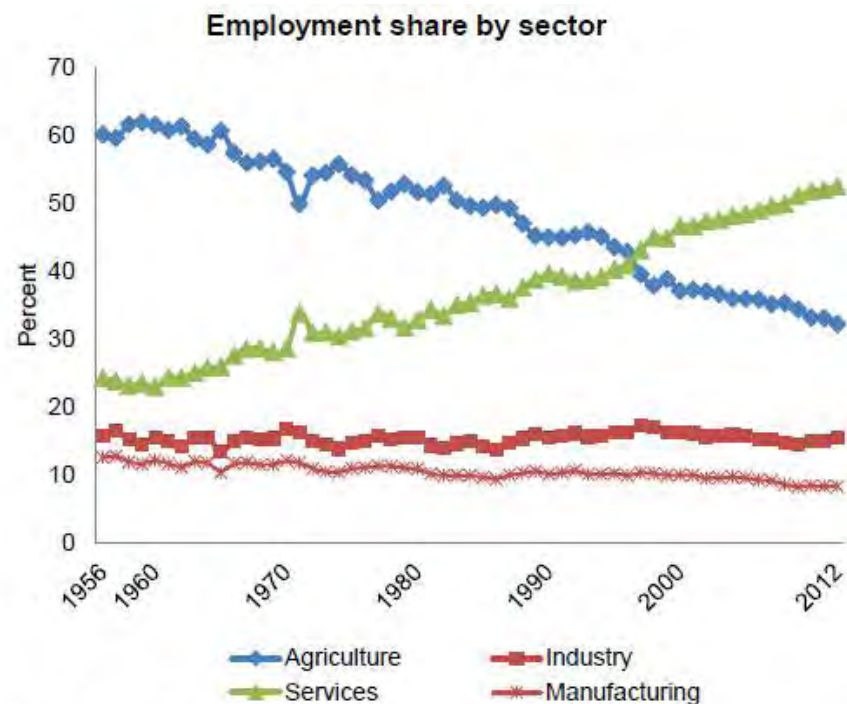


Source: WDI

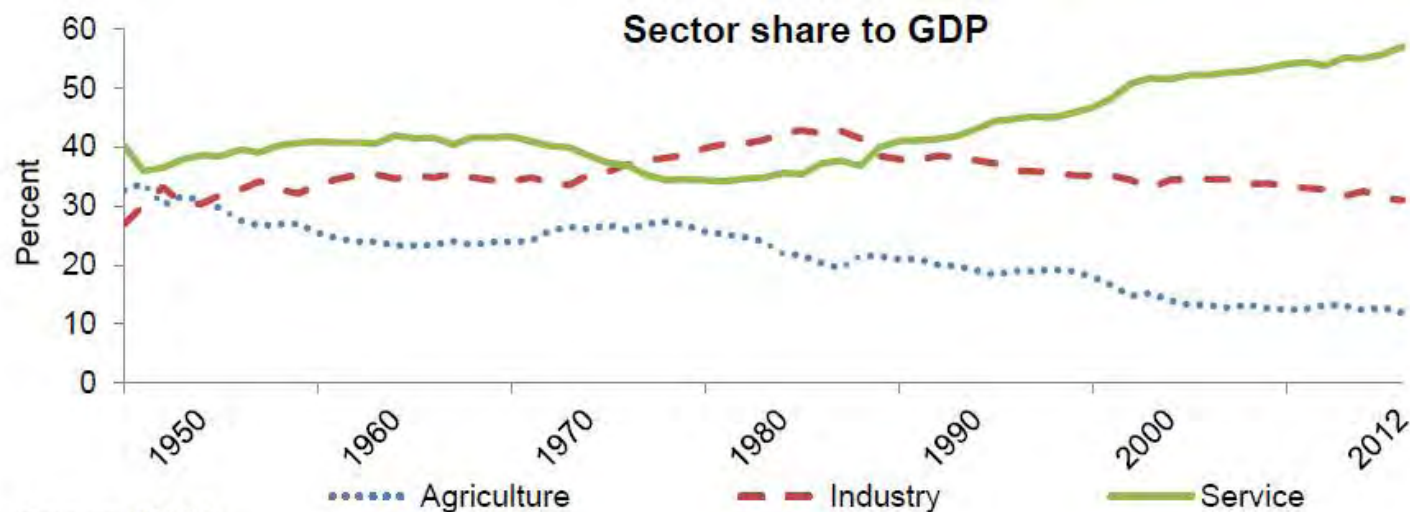
Access to rice is an important element of food security



In the Philippines agriculture constitutes about 10% of GDP and employs 30% of labor force

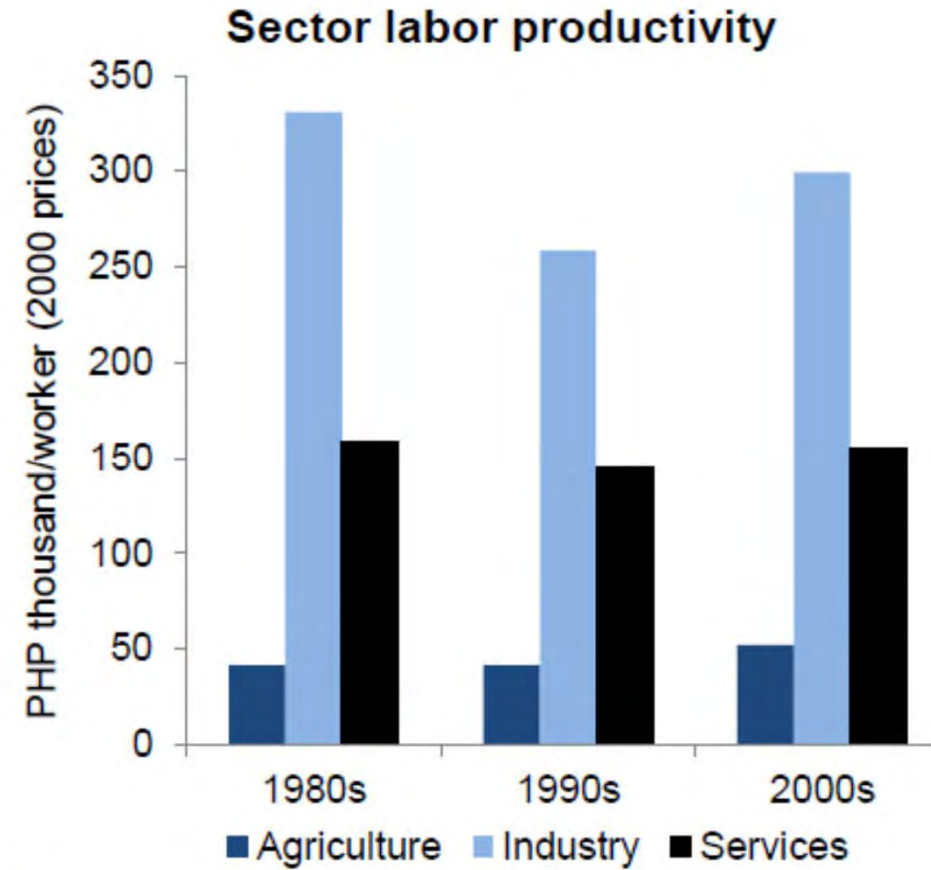


Source: Labor Force Survey (LFS)



Source: NSCB

Productivity in agriculture remains low



Source: NSCB, Labor Force Survey (LFS)

Challenges and constraints

- **Land tenure.** Insecurity of tenure in rural areas remains a constraint to the emergence of an efficient land market and limits investment by small and medium farms.
- **Coordination among and within Institutions.** The National Convergence Initiative to synchronize initiatives of the three rural development departments (DA, DAR, DENR), to enable the agencies to collectively respond to the common mandate of increasing income, improving productivity and generating employment in rural communities.
- **Extensions Services.** Extension services play an important role in providing farmers with tools, information and key trends towards promoting adoption of innovative and climate-smart production systems. But extension delivery remains hampered due to the country's fragmented delivery structure..
- **Access to Finance, Insurance.** The agricultural sector has limited access to finance and insurance options. Lending to agriculture presently accounts for only 2.8 percent of the total lending portfolio. The Agri-Agra law was to encourage banks to increase their lending to agriculture-related activities, yet, the share of agriculture related lending remains small and compliance with the law limited. Agricultural insurance schemes exist, but their sector penetration remains small.

Challenges and constraints

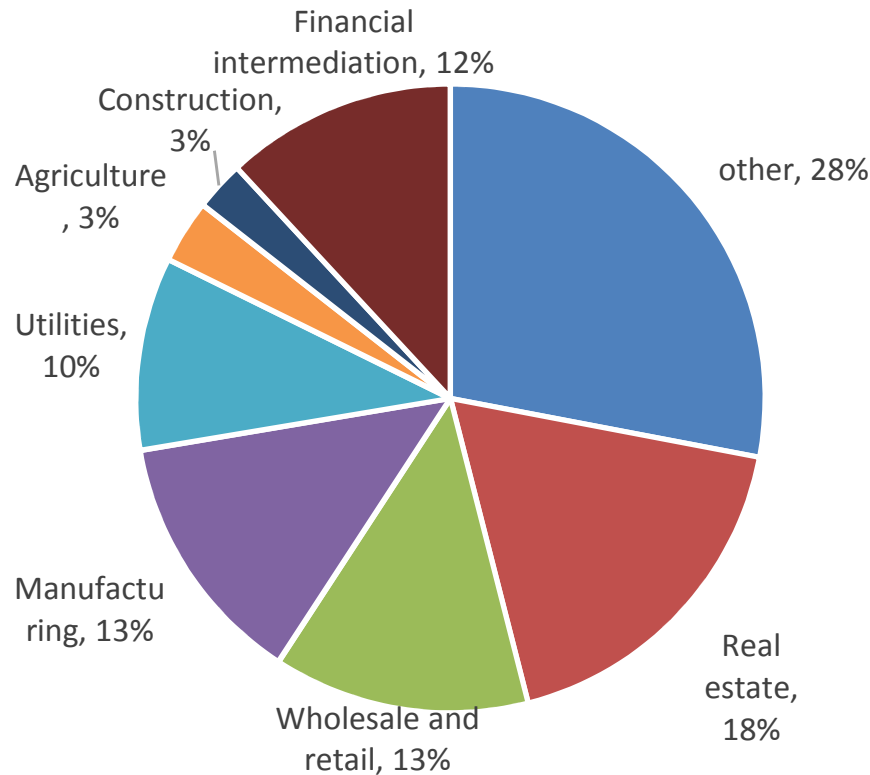
- ***Climate Change.*** Agriculture in the Philippines is highly vulnerable to climate change and natural disasters. Natural disasters cause large economic damage to the sector, and their frequency is likely to increase. Poverty aggravates vulnerability as it hampers the ability of the farmers to make adaptation decisions and investments. Efforts to effectively mainstream the national adaptation agenda into sectoral and local plans currently still face a wide range of constraints including slow implementation of identified activities.
- ***Pest and Disease Risk.*** The current sanitary and phytosanitary system (SPS) manages some high risks poorly (e.g. agricultural products at airports) while some low risks are excessively managed (e.g. frozen vegetable products), putting unnecessary pressures on the private sector. Most recently, the pest infestation on coconut farms led to a twelve percent decline in coconut exports, despite increasing demand on the global market.
- ***Agricultural Pollution.*** Contamination of water bodies due to excessive fertilizer nutrients is becoming a bigger issue. Fisheries outputs are increasingly coming from aquaculture, which is also the main source of agri-pollutants from fisheries. Land and forest degradation are having an adverse effect on ground water level and increasing issues with erosion. Strict implementation of the provisions and policies of existing legislation, especially the Clean Water Act, are necessary to address water pollution from livestock and poultry, but are weakly enforced.

Opportunities

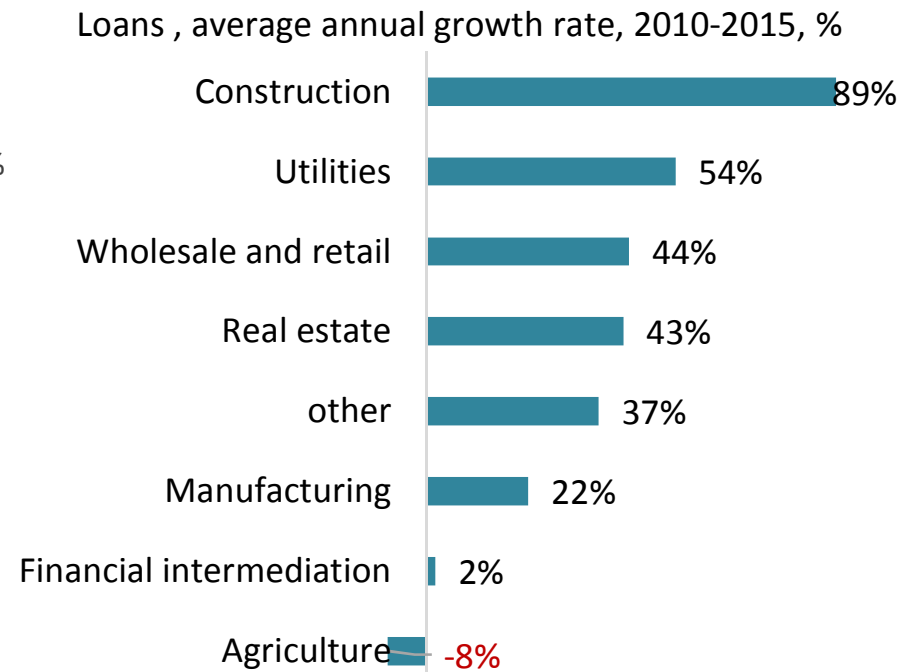
- ***Raising agricultural productivity and diversification*** – through improved technology and extension services, water management, and tenure security
- ***Linking farmers to market, improving competitiveness, and strengthening value chains*** – through market access and trade, smallholder integrations into the supply chain, investments in transport and storage infrastructure, use of information technologies, strengthened producer organizations, improved market information and standards, and access to finance
- ***Facilitating rural non-farm income*** - through improved rural investment climates and infrastructure, upgraded skills for expanding job opportunities, improved rural livelihoods, and access to finance
- ***Reducing risk and vulnerability*** – insurance and climate-resilient farming systems.

Agriculture accounts for only 3 % of bank lending and lending to the sector declined in the past 5 years

Loans outstanding by banking sector in the Philippines, by economic activity, % of total



Total loan portfolio of banks, average annual growth rate 2010-2015, by economic activity



How to improve access to finance and insurance in agriculture and rural sectors?

Are existing agri guarantee instruments, such as AGFP, sufficient?

Are existing crop insurance products and other insurance instruments adequate?

Are current regulations conducive to lending to agri?

Is funding an issue?

Is agri lending a viable business?