

Mobilizing Private Sector Finance for Societal Resilience

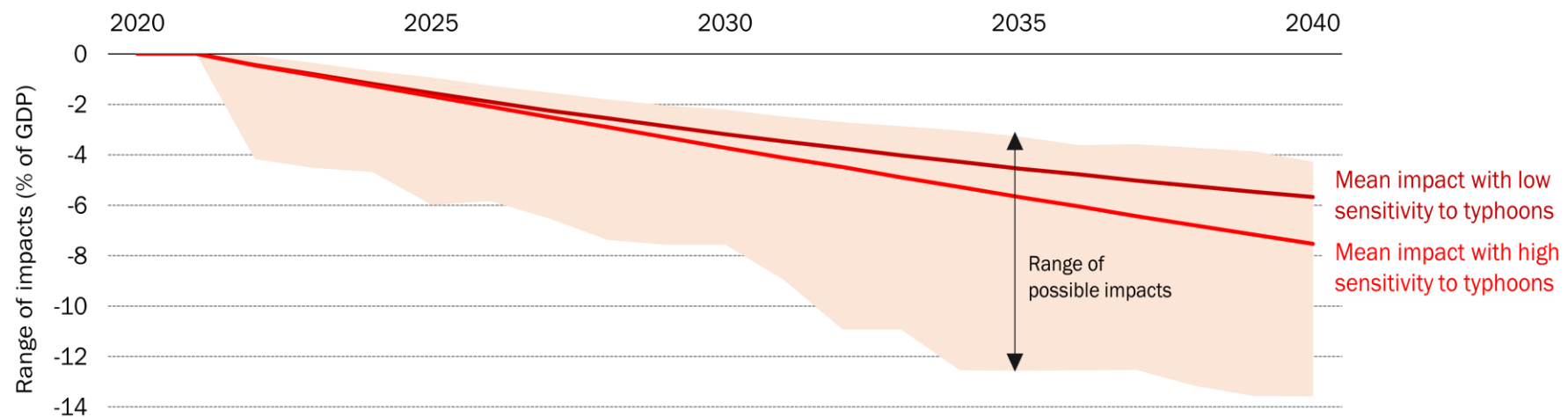
Radu Tatu

Senior Financial Sector Specialist

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Damages from Climate Change Are a Threat to the Philippine Economy

Climate change is likely to reduce GDP substantially, but the range of possible outcomes is wide

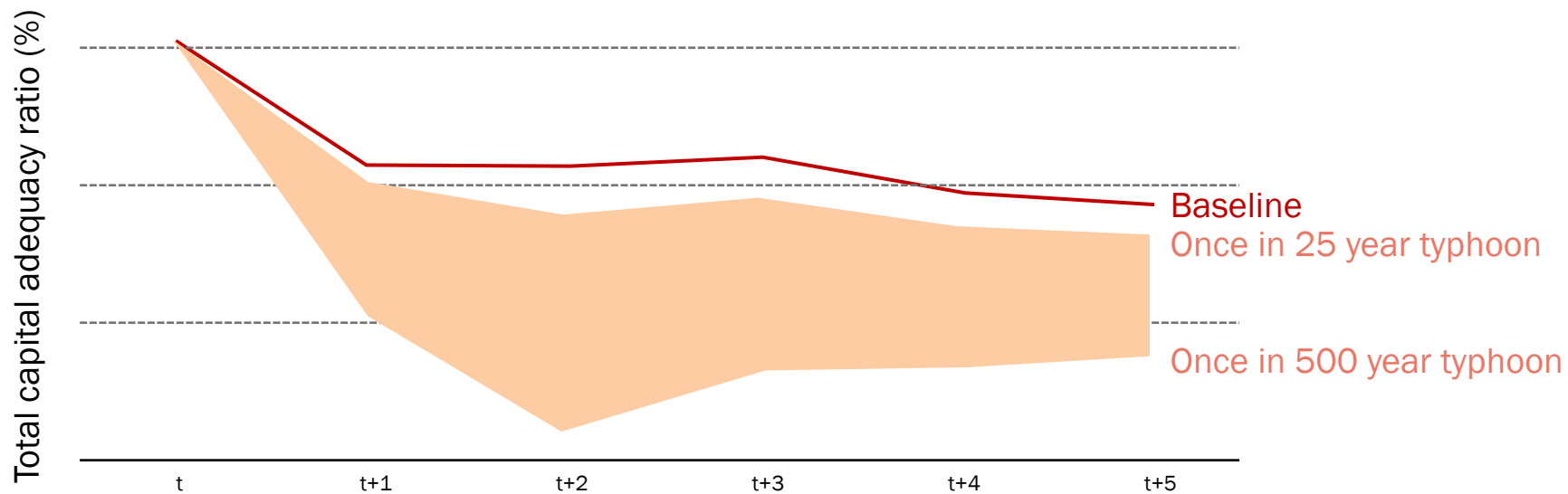


PHILIPPINE COUNTRY CLIMATE DEVELOPMENT REPORT (2022)

- Increasing intensity and frequency of extreme events and productivity losses could lead to economic damages that amount to 13.6 percent of the country's GDP by 2040, with the worst effects in capital-intensive industries

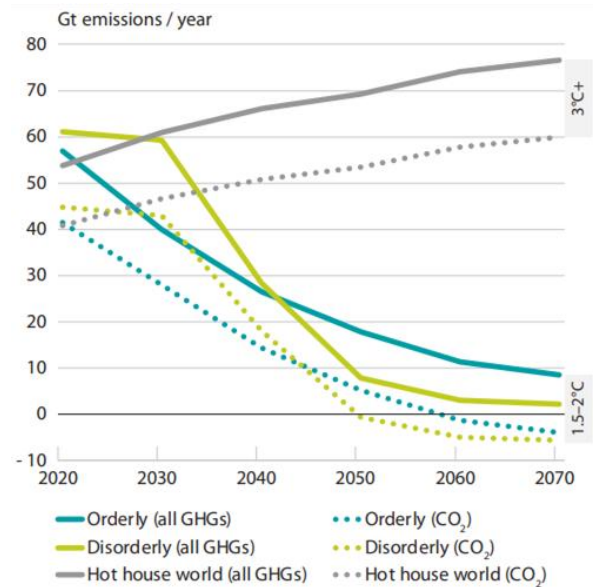
Damages from Climate Change Are a Threat to the Financial Sector

- The financial sector would also be affected: Greater typhoon damage will increase non-performing loans

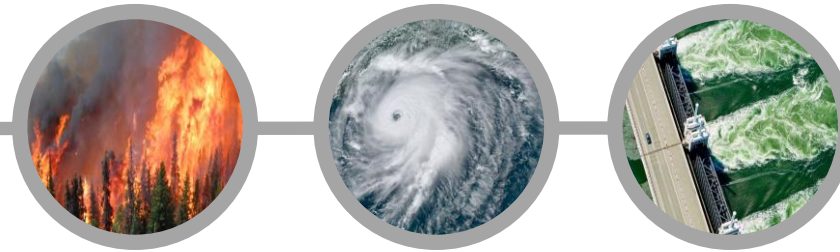


Climate Change Can Lead to Physical and Transition Risks

Projected CO2-emission paths and associated risks



Physical risks



Transition risks



Source: NGFS Climate Scenarios

The Agriculture Sector Is a Leading Contributor, but also Among the Most Impacted Sectors by Climate Change

- Agriculture and land use together account for roughly **24% of global greenhouse gas emissions** — second only to energy. The main sources are livestock methane, nitrous oxide from fertilizers, deforestation for farmland expansion, and rice paddy cultivation.
- At the same time, agriculture is one of the most climate-exposed sectors. Rising temperatures, erratic rainfall, prolonged droughts, and extreme weather events are projected to reduce crop yields by up to **25% by 2050**, threaten food security for hundreds of millions, shrink fishery catches, reduce livestock productivity, and render large swaths of agricultural land unsuitable for cultivation.
- Therefore, the agriculture sector must simultaneously **transform to emit less** and **adapt to survive**. Addressing this dual role is central to any credible food security or climate strategy.

Overview of the PRIME (Improving MSME Access to Finance and Resilience to Climate Shocks) Project

- **Project Development Objective:** to increase access to finance and resilience to climate shocks for agri-MSMEs, farmers, and fisherfolk
- **Implementing Agency:** Department of Agriculture (DA)
- The project aims to address some of the **key binding constraints** in terms of **access to credit and insurance for agriculture in a holistic way**. Specifically:
 - Component 1 will derisk lending, provide additional liquidity and extend loan tenors;
 - Component 2 will encourage public-private collaboration, by leveraging Philippine Crop Insurance Corporation (PCIC) +40 years of agricultural insurance expertise and catalyzing private insurers' participation in agricultural insurance at scale
 - Component 3 will support the use of alternative data from key Department of Agriculture (DA) databases to enhance the credit information ecosystem, and will provide substantial capacity building to key stakeholders of the ecosystem, on both the supply-side and the demand-side

Government objectives for PRIME Project and Public (PCIC)-Private Insurers Agriculture Coinsurance Pool

- **Government aims to strengthen the agriculture insurance market in the Philippines through:**
 - **Creation of a Public-Private Agriculture Coinsurance Pool**, underwritten by PCIC and interested private sector insurers. PCIC and private insurers have confirmed their desire to work together. The pool aims to:
 - Bridge the insurance gap for **semi-commercial and commercial farmers** and fisherfolk
 - Combine **PCIC vast know how and experience** with **private sector know-how** and ability to access major insurance and reinsurance capacity
 - **PRIME Component 2:** improving PCIC and increasing access to agri-insurance will support the Pool over 5 years and insure an estimated semi-commercial & MSMEs 750,000 farmers & fisherfolk
- **Project aligns with Philippines' national development goals** (e.g. agricultural resilience, poverty reduction, food security, increased agricultural productivity and incomes)
- Project is being **implemented by DA** under the **legal and regulatory framework of the Sagip Saka Act**

Benefits of Private Sector Participation – Why a Pool?

A pool = a group of insurers that offer common insurance services and products while sharing operating costs and risks.

Several successful major international subsidized agricultural insurance schemes adopt a pool structure:

E.g., Spain (AGROSEGURO), Turkey (TARSIM) and Thailand (TNCIS).

Advantages of private sector participation:

Crowding in the private sector is important to **mobilize their capital** – the government does not want to take all the risks, in addition, **add more innovation to PCIC expertise** and utilize their **existing client networks**.

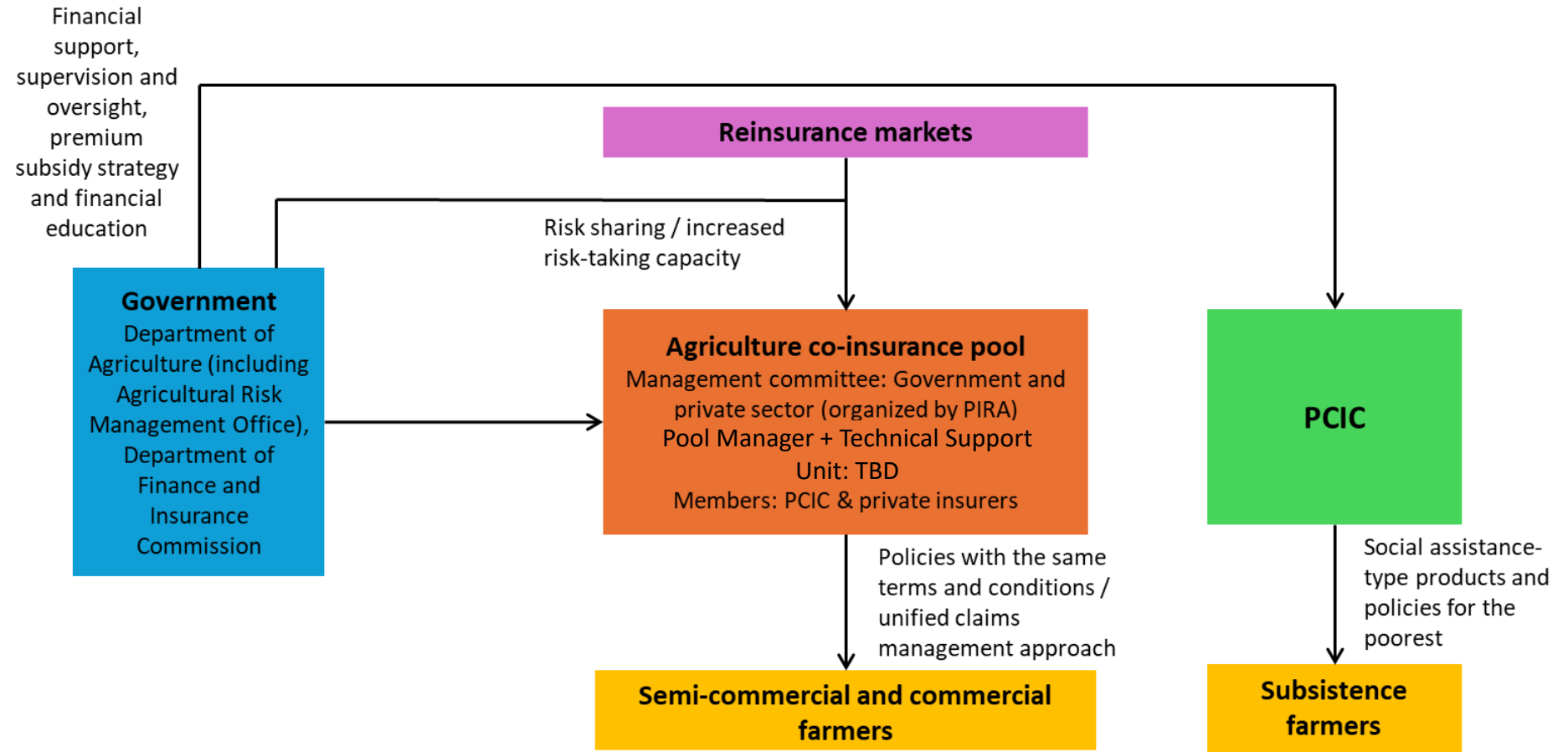
Advantages of pooling:

Forming a **coinsurance pool** in the Philippines can help:

- making it **viable for private sector to enter** and cover catastrophe risks that they on their own cannot cover
- to **scale up insurance cover** for the entire agri sector, help manage the risk that is too **too big for PCIC alone**
- it will help **introducing private sector to agri insurance** (little or no experience to date);
- allow all participants to **access farmer / loss data** and to **assess the risk and set premiums and design new products**;
- **Provide all farmers (small to commercial) better access to insurance** with improved coverage from the pool.
- achieve **economies of scale** in the administration and operating expenses of a single insurance pool entity.
- **reduce the costs of reinsurance** through risk diversification and pooling, thereby leading to cheaper premiums.

Philippines Agriculture Coinsurance Pool Structure (Illustrative)

A structure to share all risk between the insurance market, including PCIC, with a dedicated technical manager (pool)



Lessons and Conclusions on role of Agricultural Insurance in Emerging Economies

- In emerging economies, agricultural insurance markets tend to be poorly developed: government support through **Public Private Partnerships (PPPs) can stimulate market development**
- **Optimal Insurance Organizational framework for PPP:**
 - **Coinsurance Pools** can offer major opportunities and benefits
- **Involve Private Commercial Insurers** wherever possible to underwrite agricultural insurance
- **Important areas of government support:**
 - Creation of enabling legal & regulatory framework
 - Awareness, education and training
 - Data & information enhancement and dissemination
 - Product design & rating (technical support)
 - Promote / capitalize PPP Coinsurance Pools
- **Governments should exercise fiscal prudence over premium subsidy support** to ensure sustainability/scalability
- Government support as a **reinsurer of last resort** may be justified

