

The potentials of agricultural insurance as a poverty reduction tool

Poverty persists in many sectors of society. Choosing no one, it creates a dent in an inclusive approach to development the Philippines has endeavored in the last few decades. To make it worse, high poverty incidence is apparent in the agriculture sector, which, together with the manufacturing industry, serves as backbone of the Philippine economy. Exposed to a multitude of risks, a considerable number of agricultural households move in and out of poverty. Data show that 26 percent of households whose head is engaged in agriculture are always poor; 41 percent are sometimes poor. Saving that 41 percent from sliding further into poverty is expected to create positive and direct impact on the country's poverty reduction initiatives.

This is where agricultural insurance comes in. According to Dr. Celia Reyes, senior research fellow at state think tank Philippine Institute for Development Studies (PIDS), agricultural or crop insurance is deemed to be an effective risk management tool that can significantly reduce poverty among agricultural households. Considering the



Filipino farmers remain as one of the poorest sectors in the country partly because of numerous risks they confront, including typhoons and other weather-related events. (Photo by Danilo Pinzon / World Bank)

Editor's Notes

Our banner story for this year's final issue resonates deeply with many Filipinos who, despite being the food producers, remain impoverished. In a country like the Philippines where agriculture suffers from underdevelopment for decades, the risks posed by pests and diseases and worsening weather-related events mean increased poverty and inequality for small farmers and fishermen. Social protection measures like crop insurance are important to mitigate the negative impact of disasters and help them recover from shocks. This is the objective of the government's Agricultural Insurance Program (AIP), which has been present since 1981. The reality, however, is far from its goal. The multisite impact evaluation study conducted by PIDS shows the program has a low uptake, which

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adverse impact of climate change on the country, Dr. Romulo Virola, consultant at PIDS, agrees with Reyes and sees the need for an effective Agricultural Insurance Program (AIP). An average of 19 typhoons visit the country each year, causing billions of peso in damages in the agriculture sector. Given these typhoons and other potential risks, agricultural insurance can: (1) help farmers manage risks, (2) provide farmers funds to cover production costs for the following season, and (3) help farmers finance household expenditures after a shock.

However, more than three decades after the implementation of the AIP by the Philippine Crop Insurance Corporation (PCIC) in 1981, Virola disclosed that there is still no definitive evidence that the AIP is serving its purpose. Virola based his conclusion on the results of an impact evaluation study of PCIC's crop insurance program conducted by PIDS. "The main goal of the AIP toward poverty alleviation must be to ensure that marginalized subsistence farmers are provided priority protection against contingencies associated with the agriculture sector," explained Virola.

The PCIC is the government agency that implements insurance programs on rice, corn, high-value commercial crop, livestock, noncrop agricultural asset, fishery, and term insurance. With a budget ballooning to PHP 2.5 billion in 2017, questions arise regarding the effectiveness and sustainability of the said programs, particularly the AIP.

Features of PCIC's agricultural insurance

According to Reyes, the agricultural insurance offered by the PCIC is considered as a "production cost insurance", as it typically insures the

cost of production inputs of farmers, with prescribed cover ceilings (i.e., the maximum amount that a farmer can receive when a particular disaster occurs). Depending on the type of rice, for instance, cover ceilings vary. For example, a farmer enrolled in the insurance program can claim up to PHP 41,000 per hectare for inbred rice, and PHP 50,000 per hectare for hybrid rice. The same farmer can also opt to add a portion of the value of the expected yield to the insurance cover, but this must not exceed 120 percent of the cost of production inputs.

In other words, when a farmer experienced full crop damage, the amount of indemnity payment or claims from the PCIC would be equal to the total cost of production inputs (or up to a maximum of 120% of this amount).

For rice and corn, however, the amount of indemnity is based on: (1) the stage of cultivation at the time of loss, (2) actual cost of production inputs applied at the time of loss, and (3) percentage of yield loss. Yield loss is categorized as either total loss (i.e., 90% or above), partial loss (i.e., more than 10% but below 90%), and no loss (i.e., 10% or below). Both rice and corn are considered the main product lines of PCIC, accounting for 88 percent of the total premium collections and 95 percent of the total claims payments from 1981 to 2014.

For high-value crops—which account for 6.5 and 1.5 percent in total premium collections and claims payment, respectively—the amount of indemnity is based on: (1) the actual cost of production inputs already applied at the time of loss per farm plan and budget, which depends on the limits stipulated in the policy contract; (2) prorated cost of harvested crops; (3) salvage value or the estimated

value that the owner is paid when the item is sold at the end of its useful life; and (4) percentage of yield loss.

The risks covered by the crop insurance of PCIC are natural hazards with official declaration from the Philippine Atmospheric, Geophysical, and Astronomical Services Administration (i.e., typhoons, floods, droughts, and other weather-related occurrences) and the Philippine Institute of Volcanology and Seismology (i.e., earthquakes, volcanic eruptions). Hence, losses incurred due to the failure of farmers to follow proven farm practices are excluded.

Areas for improvement

Not without flaws, PCIC programs suffer from low level of awareness among farmers—whom the PCIC pledges to serve—and even among local government units (LGUs). Based on the focus group discussions and key informant interviews conducted by Reyes and her team, they found out that farmers and LGUs are not aware of PCIC programs; some farmers are not even aware that they are already insured under the Registry System for Basic Sector in Agriculture (RSBSA) program, which is a database of farmers, farm laborers, and fisherfolk in the 75 poorest provinces in the Philippines.

The penetration rate of PCIC programs is also considered low. Out of all eligible rice farmers in the Philippines, only 27 percent are enrolled in the insurance program. Penetration rate in corn, high-value commercial crops, and livestock is even lower at 12.2, 3, and 3.7 percent, respectively. Should penetration rate increase, fund insufficiency is the next big problem.

The issues in penetration rate and limited fund coverage of special programs,



thus, lead to low amount of insurance cover. The more farmers enrolled in the program, the lower the insurance cover each farmer can get. Increasing insurance cover, on the other hand, will lead to fewer farmers that can benefit from the program due to limited budget.

Under the PCIC program, farmers with farm sizes of three hectares and below are the priority beneficiaries. Despite the increase in funding, Reyes noted that the amount is still not enough to cover all eligible beneficiaries. This leads to the “first-come-first-served” implementation policy.

This is also aggravated by the lack of long-term national policy on funding agricultural insurance. Between 2013 and 2016, the bulk of premium subsidies comes from special programs, such as the Department of Agriculture (DA) *Sikat Saka* Program, Yolanda funds, and RSBSA.

Given the limited funds, therefore, insurance premium subsidies should be directed to the poorest farmers. “Because PCIC will continue to use the RSBSA as a targeting tool for giving free insurance premium, there is a need to validate and reconcile the list of farmers in the RSBSA with the list of agrarian reform beneficiaries (ARBs). This is because there are many ARBs excluded in the RSBSA list, while some nonfarmers are included in the RSBSA database,” recommended Reyes.

Reyes and her team also emphasized that, in terms of insurance subsidy, there is a bias toward rice and corn. “Only rice and corn have partial subsidy in regular program (about 50%). This reflects priority toward rice and corn over other crops, which is also reflected in the DA budget allocation,” Reyes stated.

Figure 1. Process of securing agricultural insurance



Source: Presentation of Dr. Reyes during the PIDS-CPBRD Legislators Forum Series held on December 6, 2016, at the House of Representatives in Batasang Pambansa Complex, Quezon City.

In 2014, more than 80 percent of the total government premium subsidy was allocated to rice and corn, further reflecting the bias toward these crops. According to PCIC data, only 12.6 percent was allocated to high-value commercial crops, and 3.43 percent to livestock. Both noncrop and term insurance package (i.e., life and accident insurance for farmers and their relatives) account for less than 1 percent.

In terms of processing time, Reyes said the settlement of claims is done on a piece-meal basis because claims applications are also received on a piece-meal manner. On the average, it takes around two weeks to process a claim—from filing of notice of loss to receipt of

claims payment. However, if claims are simultaneously filed because a number of areas are damaged, the processing of claims would take around three months or more. This, Reyes stated, could be attributed to the limited manpower resources of the PCIC.

“In general, the PCIC has been complying with the provision of the Charter that claims should be settled within 60 days after the complete set of documents has been received. The claims settlement response time had been below 20 days from 2008 to 2013, but it slightly increased to 22 days in 2014, which is possibly due to increased coverage and/or wider damage,” explained Reyes.

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How crop insurance benefits rice farmers in Western Visayas

As part of the nationwide impact evaluation study on the insurance programs of the Philippine Crop Insurance Corporation (PCIC), Dr. Gay Defiesta and Mr. Hanny John Mediodia of the University of the Philippines in the Visayas focused on the efficacy of the PCIC's crop insurance program on the rice sector in Western Visayas. Their findings show that crop insurance, however limited, helps farmers, especially those with small farmlands.

Western Visayas ranks third in terms of rice production volume and value, contributing a huge chunk to the national market for rice. Rice is also the primary agricultural commodity in the region. Yet agriculture remains a “highly risky venture” in this area of the country, as it is constantly exposed to extreme weather events.

In 2013, Visayas suffered from two natural calamities; the first was a fatal earthquake and the second was Typhoon Yolanda—one of the strongest typhoons to ever make landfall. The “fluctuations in rice production” these calamities caused deeply affected the region's local economies, making it more difficult for communities to normalize recovery.

In situations like this, ideally, crop insurance can make all of the difference. In the case of Western Visayas, the PCIC

carried out its crop insurance program to help reduce the susceptibility of rice farmers to extreme climate conditions and weather occurrences, and their debilitating consequences.

Ideally, as a risk management tool, the crop insurance PCIC provides has a threefold purpose. It is supposed to (1) “stabilize farmers’ income” during shocks, (2) serve as a “mechanism to enhance farmers’ access to formal low-cost credit”, and (3) help increase farmers’ income.

Defiesta and Mediodia's study surveyed farmers in the region from 2014 to 2015. The results show that insurance makes a difference in many ways.

“Not all rice farmers avail of crop insurance regularly,” the authors observed, but those who do gain from better access to formal and low-cost credit. It makes it easier for them to borrow money from banks in the aftermath of disasters with insurance records in their financial history.

Farmers are also more likely to avail of insurance after having experienced a life-altering environmental shock. According to the authors, farmers cope financially with climate-related disasters like typhoons and droughts by trimming their personal and household consumption. This ranges from shifting to cheaper food to letting their children



Western Visayas ranks third in terms of rice production volume and value. Photo shows a farmer working during harvest season in Capiz in Western Visayas. (Photo by Mr. Leeds / Flickr)

skip school and opting to self-medicate instead of visiting the hospital in times of illness. In cases where farmers do have insurance in times of disasters, the indemnity payments they receive either finance these social areas that they would otherwise be austere with, or finance the next planting season.

Without proper insurance or access to low-cost credit, farmers often resort to borrowing from informal and unsustainable sources (i.e., other family members or friends) not only during

times of disasters and shocks but also during normal days for purposes of expansion or improvement in farming equipment.

Farmers who avail of crop insurance also make more money, although the size of farm fields play a critical discerning role, with positive impact.

What the study shows clearly is that crop insurance coverage has a positive impact, but the program is grossly underused and underfunded. The farmers who did not

acquire coverage often said they did not know about the available options.

Local government units, then, had to be relied on to play the critical information dissemination role. Furthermore, in the last three decades, the PCIC has been “operating on a negative average net income of PHP 8.417 million pesos”.

As part of a larger impact evaluation, the study shows an urgent need to approach the problem of insuring farm with more coordination. **MHB**

Government insurance for Davao banana farmers “not sufficient”—PIDS

The government is providing insufficient crop insurance to banana farmers in Davao, according to state think tank Philippine Institute for Development Studies (PIDS).

In the study “Impact of the Philippine Crop Insurance Corporation’s (PCIC) crop insurance to banana producers in Region 11”, Mr. Roperto Deluna Jr., Ms. Jennifer Hinlo, and Mr. Michael Ayala—PIDS consultants from the University of Southeastern Philippines—warn the government that the current crop insurance may fail to stabilize banana farmers’ income and adequately protect them from shocks given its low coverage.

At present, PCIC only covers a maximum rate of 55 percent of the average annual cost of banana production per hectare, which is not enough to safeguard Davao

farmers’ income during disasters. This is despite the fact that Davao region is prone to natural hazards, particularly typhoons.

In 2012, Typhoon Pablo caused enormous losses to the country’s banana production when it flattened Davao region’s 87,000-hectare banana plantation, according to the Bureau of Agricultural Statistics.

Premium subsidy for banana farmers is likewise market-rated unlike in the case of those farming traditional crops, such as rice and corn, who enjoy a well-structured government subsidy.

Low penetration of PCIC insurance

Aside from the low insurance coverage, the study also discovered that the PCIC

insurance has low penetration rate among banana farmers, which could be attributed to the agency’s lack of presence at the municipal level.

Some farmers are not even aware that PCIC exists, according to PIDS.

“PCIC only has 11 regular personnel and 25 job order personnel covering seven provinces in Davao region, including South Cotabato and Sarangani,” the study stated.

The PIDS study recommends the creation of satellite offices that will improve the accessibility of the insurance program of the PCIC. It also encourages PCIC to intensify its information and education campaign to encourage more farmers to avail of its services.

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SERP-P Network celebrates accomplishments, forges commitments at 4th biennial meeting

More than 50 representatives from 29 member-institutions in Luzon, Visayas, and Mindanao took part in the 4th Network Biennial Meeting of the Socioeconomic Research Portal for the Philippines (SERP-P) Project held on December 6, 2016, at the PIDS Office in Quezon City. The Biennial Meeting aimed to strengthen the partnership between and among the SERP-P member-institutions; discuss the issues, challenges, and opportunities relevant in implementing the project; and identify strategies and develop future pathways for SERP-P.

In his opening remarks, Philippine Institute for Development Studies (PIDS) President Dr. Gilberto Llanto noted that in an era where changes are coming from many different ways, the value of organizations like SERP-P becomes more pronounced. “SERP-P is about the truth; it is about empirical evidence and producing policies that are evidence-based,” he remarked. Hinting on the importance of truth, Llanto emphasized the role of SERP-P in creating an avenue not for post-truth, which is largely based on emotional appeal or subjective interpretation, but for the “unvarnished truth.”

As the first electronic repository of policy research that capitalizes on knowledge networking in the country, Llanto said

that since 2002, SERP-P has endeavored to share and integrate the research work of different institutions, particularly universities, to reach a wider audience and to penetrate different stakeholders’ agenda.

“This is how you optimize its [research] value: by giving people the opportunity to mine data and ideas, which they use to improve society,” Llanto added.

As one of the prime movers of SERP-P since its launch 14 years ago, PIDS Senior Research Fellow and SERP-P Technical Adviser Dr. Aniceto Orbeta Jr. provided a brief history of the project. According to him, SERP-P emerged as a function of the mandate of PIDS to provide research materials that support the formulation of national development plans and policies.

With limited resources, however, Orbeta said that “there is a natural need for PIDS to reach out to universities, colleges, and other research institutions, and seek their assistance in jointly addressing the policy research gaps of the country.”

Orbeta, therefore, noted that a network of research institutions sharing their research outputs is a better way of fulfilling the mandate of PIDS. Ultimately, the goal is to influence policy discussions with evidence-based research and, eventually, craft effective and efficient policies.

“We cannot fill all the research needs of the country; that is the value of the network. This where SERP-P comes in. One can think of SERP-P as essentially a continuous research fair on the web,” stressed Orbeta.

SERP-P accomplishments

SERP-P Project Manager Dr. Sheila Siar then presented the accomplishments of the project since the last biennial meeting in 2014. With the contributions from the SERP-P Network, the portal is now home to more than 5,600 socioeconomic materials.

In her presentation, Siar discussed the two main challenges confronted by the project: (1) lack of contributions from inactive member-institutions and (2) low level of awareness of SERP-P among its intended users. To resolve this, Siar reported that the SERP-P team at PIDS continuously conducts coaching sessions in using the SERP-P content management system (CMS). SERP-P reorientation and promotion programs, which are an attempt to raise the awareness of the research community about SERP-P, were also conducted in different knowledge events in the country. Most notable are the Database Management Seminar for the Mindanao Knowledge Center (MKC) held in Davao City, a presentation at



Coming from different government, academic, and research institutions, the SERP-P Network commits to strengthen its partnership in pursuing innovative knowledge exchange mechanisms in the field of policy research. (Photo by Rejinel Valencia / PIDS)

the Young Economists' International Conference held in Manila, and promotional activities simultaneously conducted with PIDS co-sponsored events in Butuan and Cebu. Late in 2015, the SERP-P team also participated in the Global Open Knowledge Hub meeting in Brighton, United Kingdom.

Other accomplishments include the redesign of the SERP-P website, automatic updating of the SERP-P mobile page, and continuous production of the *SERP-P News* and *SERP-P Monthly*. Siar also reported that starting in 2016, the unique users of the SERP-P website increased from less than 1000 users to more than 2000.

"SERP-P is not owned by PIDS. It is our project, our collective endeavor. With the cooperation and support of all member-institutions, we can accomplish more in the coming years," Siar said. She added that the meeting is a venue to chart future pathways for SERP-P and to craft strategies that will address persistent issues, particularly the inactivity of some SERP-P member-institutions.

Engaging SERP-P member-institutions

Following the presentation of accomplishments, Jun Bautista and Mark Vincent Aranas, SERP-P web developer

and coordinator, respectively, presented the new SERP-P website and demonstrated how to use the SERP-P CMS.

Motivated by the feedback received from the knowledge events attended by the SERP-P team, the redesign of the SERP-P website was centered on improving its facilities, particularly in terms of search options; navigating inside the website; updating statistics; and adding new features, such as spotlight issues for researchers and publications. According to Bautista, the new website intends to not only improve how the website looks (i.e., frontend) but also improve the "total user experience" of SERP-P.

Meanwhile, Aranas demonstrated how to upload publications on the SERP-P CMS. He said that the CMS was designed to provide the member-institutions with direct access to SERP-P by giving them login credentials and allowing them to upload their own publications. He added that member-institutions can upload materials, news articles, and events through the CMS. During the demonstration, problems confronted by member-institutions in terms of contributing materials also surfaced. These include poor Internet connection, particularly among state universities and colleges; lack of manpower; and clearance issues.

To aid the participants with information regarding copyright and licensing, Aranas also tackled ways on how to employ the open access agenda. He centered his presentation on licensing content using Creative Commons licenses. According to Aranas, explicitly giving a material a license allows the copyright holder to determine how the content can be reused, revised, remixed, and/or redistributed. He stressed, however, that copyright holders or authors should assign the correct and appropriate license from the start, as this is irrevocable.

Furthermore, to demonstrate a prolific partnership between the SERP-P team at PIDS and another member-institution, Mindanao Development Authority (MinDA) Executive Director Dr. Janet Lopez talked about the MKC, whose goal is to serve as the leading resource of policy research and experts on Mindanao, and to share research studies on Mindanao among academic institutions, government agencies, and international organizations. Lopez acknowledged the assistance of the SERP-P team in helping them develop the MKC database.

"Since we have been engaged with PIDS [through SERP-P] in a number of initiatives in Mindanao, the momentum of the MKC has been fast-tracked," Lopez noted.



Ways forward

During the afternoon session, an interactive group work on strategic forecasting was conducted. The activity aimed to develop short-, medium-, and long-term visions for the SERP-Project (i.e., for 2018, 2020, and 2022, respectively). Strategies in the form of activities and policies to achieve these goals were also discussed.

Divided into five groups, the participants developed future pathways for SERP-P. Some recurring themes surfaced. For 2018, the vision is for a more strengthened and engaged SERP-P Network with members fully committed in contributing materials to the portal and in promoting the open access agenda. In 2020, the participants envision the SERP-P website as one of the leading open access repository of research materials in the country, with a wider reach and expanded research coverage. In 2022, the participants envision a SERP-P Project that finds its way into the global arena, with the goal of establishing a research culture among its primary stakeholders. These pathways, according to Aranas, will serve as the compass of the project in the next few years, particularly in the celebration of the 20th anniversary of SERP-P in 2022.

To achieve these goals, the participants drew specific recommendations that include, among others: pursuing formalization of partnership through a memorandum of understanding; incentivizing most active members through nonmonetary measures, such as providing certificates of recognition; increasing social media presence by liking and sharing SERP-P materials and events on Facebook; conducting more frequent meetings and promotional activities by visiting the locale of each member-



The afternoon session of the meeting was devoted to identifying strategies—in the form of activities and policies—that will help achieve the goals of SERP-P. (Photo by Rejinel Valencia / PIDS)

institution; developing a briefing package or kit about SERP-P and the open access agenda, which can be used by SERP-P coordinators in promoting the project; and pursuing a study on SERP-P website users (i.e., demographics) to further customize knowledge services.

“In the succeeding years, the challenge to SERP-P is how to stay relevant amid increasing competition, and how to harness the advancements in technology to better improve our services. Our competitive advantage is that we are composed of 53 member-institutions—with diverse research expertise and resources—all working toward innovating knowledge exchange and making sure information is available and easily accessible for the research community,” said Aranas.

To get these plans in motion, commitment, according to Siar, is necessary. She added: “commitment is something that we should continuously build and demonstrate.” She also

reminded the participants that SERP-P is not just a portal but also a network composed of people with talents and research capacities. Siar added that each member-institution has a duty to the research community, to policymakers, and to the public to serve as champions of knowledge exchange and help ensure that policies are backed up by evidence-based research.

At the end of the meeting, seven member-institutions were given certificates of recognition for being the most active members of SERP-P in terms of contributing materials to the SERP-P database from 2014 to 2016. These are (1) MinDA, (2) *Bangko Sentral ng Pilipinas*, (3) Central Philippine University, (4) University of the Philippines Los Baños-Center for Strategic Planning and Policy Studies, (5) Silliman University, (6) Congressional Planning and Budget Research Department of the House of Representatives, and (7) National Economic and Development Authority-Caraga. **MVPA**

Boosting regional cooperation through research ties

A year past since the leaders of the Association of Southeast Asian Nations (ASEAN) signed the ASEAN Economic Blueprint 2025, leading think tanks Philippine Institute for Development Studies (PIDS) and Korea Institute for International Economic Policy (KIEP) hosted the 12th East Asian Institutes forum on the future and the policy needs of ASEAN integration. Both research institutes outlined their agendas and projects concurrent with their regions' integration plans.

PIDS President Dr. Gilberto Llanto shared that the current PIDS studies are oriented to inform ASEAN policy dialogues on topics such as reducing unnecessary regulatory burdens, intra-ASEAN nontariff measures on trade and foreign direct investment, innovation policies for ASEAN, and inclusive industrialization for job-centered expansion of global value chains.

KIEP's agenda, as explained by KIEP President Hyun Jun Taik, focuses on the same subjects, with an additional focus on bilateral and trilateral trade policies, investment policies across the region, macroeconomics, urban and economic development, and the impact of major regional trade agreements.

Delegates from various research bodies who shared their outlook at the forum include representatives from the National

Institute for Economic Research in Lao PDR, the Organisation for Economic Co-operation and Development (OECD), the United Nations Conference on Trade and Development (UNCTAD), and the UN Economic and Social Commission for Asia and the Pacific (UNESCAP).

The path to integration

The potential benefits of regional integration are far-reaching and beyond economic growth. It weighs on policymakers and their technical research arms to share good practices and to collaborate on recommending solutions to regional challenges.

With Britain's decision (popularly called "Brexit") earlier this year to leave the European Union (EU), which puts the EU in an existential crisis, it becomes more important for policy researchers in the ASEAN and East Asian regions to generate effective policies that will strengthen their regional alliances, and ensure inclusive growth and integration.

At the forum, Kim Heungchong and Kim Younggui of KIEP discussed the impact of Brexit on the East Asian macroeconomy, especially where preferential trade agreements are concerned. According to the authors, the trade relations they have with the EU and the United Kingdom (UK) have the potential to be renegotiated with the change in circumstances.

The impact on East Asian economic integration, they surmise, will unlikely be substantially negative.

Rafal Kierzenkowski, head of the UK Desk at the Economic Department of the OECD, also shared the results of his study, showing the negative impact of Brexit on the UK economy—particularly on real wages, investments, and imports—and the possibility of a spillover effect for the EU and Asia.

The studies urged regional leaders and policymakers to shape the path of integration with evidence-based policies that are comprehensive, inclusive, and effective. With political pivots transpiring across the world—some of which threaten the very premise of global connectivity through protectionist, isolationist, and divisive policy behaviors—it is ever more important to work together to create the policies and institutions that will address the challenges and empower the intertwined regional fates of countries.

Regulatory harmonization

On the question of how to improve integration paths, Ralf Peters of the UNCTAD presented his study on "Regulatory Harmonization in East Asia". Peters focused his study on nontariff measures, their linkage with and direct impact on accomplishing sustainable development goals, and what this means

for trade deals in Asia. Peters said policymakers in the region must work on cross-border harmonization of regulatory policies. The nature and relationship of nontariff measures to national and regional growth have to be understood. Coherence and convergence of policies are key to making sure the region lives up to the values it signed up to uphold.

Meanwhile, Llanto stressed that regulatory harmonization is crucial not just to liberalizing trade of goods but also to trade of services and enhancing labor mobility.

“Difference of regulatory structures among countries in the region can be an impediment,” said Llanto. Regulatory structures failing to complement each other across borders will increase the costs of doing business and decrease the potential of matching the region-wide pool of qualified workers and professionals with the businesses that need them.

Mutual recognition arrangements need to be pushed in key professional areas, recommended Llanto, and immigration policies and restrictions have to be revisited and reformed. As for the Philippines, Llanto said government, policymakers, and private businesses have to work together to boost investments in the country’s human capital to make Filipino workers and professionals more regionally competitive.

Rebalancing toward services industries and SMEs

Dr. Erlinda Medalla, PIDS senior research fellow, Dr. Leiber Leebouapao, vice president of the National Institute for Economic Research in Lao PDR, and Marc Proksch, chief of Business and Development Trade in the UNESCAP Investment and Innovation Division, discussed inputs from their individual

studies on how to improve the integration of small and medium enterprises (SMEs) into the global and regional value chains (GVCs).

Medalla reiterated the role and importance of SMEs as creators of stability, sources of growth and innovation, and vehicles for reducing poverty. GVCs are an enabling platform for SMEs to gain the opportunities and advantages to expand their operations; tap into new potential markets; and improve exchange of technical capacities, products, and technology. ASEAN member-states should make it a goal to increase SME participation in GVCs.

Capacity is an essential area to address. Iterating Llanto’s recommendation, Medalla agreed that investing in people’s capacities would improve the competitiveness of their business and enterprises, and give them the skills to participate in GVCs.

Medalla also recommended addressing linkage problems that prevent SMEs from gaining access and increasing their participation in regional trade networks through GVCs.

Proksch, meanwhile, discussed the nature of linkages between transnational companies and SMEs, and emphasized the important roles of supply chain finance and clusters in enhancing the competitiveness of SMEs and increasing their chances and opportunities to participate in GVCs. Proksch said governments and industries have to be strategic with their policies and approaches if they want to help SMEs integrate and further upgrade their value chains.

Through all of these, Llanto said researchers and academics must place themselves in a discerning role by shaping the right kind of policies needed to ensure a more effective and inclusive integration. ASEAN+3 (i.e., including Japan, South Korea, and China) must “continue their constructive dialogues and coordination activities”, not only between leaders but also among research peers and academics. Researchers can help policymakers enhance the “trust and confidence for mutual interests” by sharing best practices and promoting consultation among countries to find the best solutions and to deal with the challenges facing the region. **MHB**



Jointly organized by KIEP and PIDS, the 12th East Asian Institutes Forum showcased research studies that deal with the policy needs of ASEAN integration. (Photo by Gizelle Manuel / PIDS)

Strengthening evidence-based policymaking in PH through dialogues with legislators

Recognizing the vital role of independent scientific advice as a key part of the policymaking process, the Philippine Institute for Development Studies (PIDS) has once again partnered with the Congressional Planning and Budget Research Department (CPBRD) of the House of Representatives (HOR) to hold seminars for legislators and their technical staff.

Now on its 17th year, the PIDS-CPBRD Legislators Forum Series features presentations of research studies conducted by PIDS. It is aimed at sharing with members of Congress and their technical staff the results and recommendations of PIDS studies to assist them in coming up with appropriate and well-timed policy interventions to society's problems. The topics selected are relevant development issues based on the legislative priorities of the HOR.

For 2016, PIDS presented the results of three of its completed studies that evaluated the impact of major government programs, namely, Students' Grant-in-Aid Program for Poverty Alleviation (SGP-PA), Agricultural Insurance Program of the Philippine Crop Insurance Corporation (*see banner article*), and Utilization of the Motor Vehicle Users Charge (MVUC) fund. These studies are

part of a series of impact evaluation (IE) research conducted by PIDS to evaluate the effectiveness and impacts of key government programs and projects. IE is a special type of research that allows policymakers and program implementers to ascertain whether a particular program is achieving its objectives and whether the results are attributable to the intervention.

Refinement in design and implementation of the SGP-PA

In his presentation at the HOR on November 21, PIDS Senior Research Fellow Dr. Aniceto Orbeta Jr. outlined several recommendations to improve the design and implementation of the college scholarship grants for the children of *Pantawid Pamilyang Pilipino* Program (4Ps) beneficiaries.

Orbeta's presentation was based on a PIDS study that evaluated the operational issues and impacts of the SGP-PA.

Introduced in 2012, the SGP-PA has been expanded in 2014 to become the Expanded SGP-PA or the ESGP-PA. It aims to alleviate poverty by increasing the number of college graduates among poor households and eventually getting them employed in high value-added occupations.

The SGP-PA is intended for identified 4Ps households. It provides a grant that is sufficient to cover the usual education expenses. The grant consists of PHP 10,000 per semester for tuition and other fees, PHP 2,500 per semester for textbooks and other learning materials, and PHP 3,500 per month for 10 school months as stipend. Living allowance is also provided. The total grant amounts to PHP 60,000 per academic year per student.

The ESGP-PA is being implemented by the Commission on Higher Education (CHED), the Department of Social Welfare and Development (DSWD), the Department of Labor and Employment, and selected state universities and colleges (SUCs). Initially, the SGP-PA provided scholarship to 4,041 students from identified and classified poor households. This number increased by 36,412 beneficiaries under the ESGP-PA starting academic year 2014–2015, bringing the total number of beneficiaries to 40,453. The number of implementing SUCs also increased from 35 to 112 across the country.

Given that the success of the program is measured based on the number of grantees that are able to graduate, Orbeta emphasized the importance of choosing

grantees who have a relatively high likelihood of completing their degrees.

Enforcing admission exams, according to Orbeta, is one way of achieving this objective. This recommendation was based on the result that shows a strong correlation between entrance exams scores and academic performance in core subjects.

Orbeta also reiterated the importance of full financing for scholarship programs, such as the ESGP-PA, which are targeted to poor households.

“There are other school-related expenses that are not covered by the grant but are necessary for the students to complete their degrees. For example, there is no budget allocation for summer courses, on-the-job trainings, national competency exams, field trips, and thesis,” Orbeta explained.

The study also pointed out aspects of the program that are not within the academic realm. As most grantees experience cultural change from being relocated to a more urbanized setting, there should be interventions to help them cope with these changes.

“With appropriate interventions, well-selected students with poor socioeconomic background are able to perform as good as their peers. The results show that the effect of their poorer socioeconomic background is reflected only on their poorer grades in the first year. By the second year, they are already performing at par in Math and even better than their peers in Science and English,” Orbeta explained.

Lastly, Orbeta calls for the institution of a well-thought-out monitoring system so that critical features of the program can be rigorously assessed.



According to Orbeta: “With appropriate interventions, well-selected students with poor socioeconomic background are able to perform as good as their peers.” (Photo by Gizelle Manuel / PIDS)

Greater transparency and accountability in spending MVUC fund

To improve the effectiveness and efficiency of the collection and disbursement of the MVUC fund, a study by PIDS is calling for greater transparency and accountability among government agencies involved in the program.

The call was in response to allegations of misuse and politicized allocation of the MVUC fund. For example, a 2009 World Bank study noted that high share of MVUC funds were used to fund roadside maintenance programs, such as sweeping, beautification, and planting.

The MVUC, which is imposed through the registration fees of vehicles and penalties for overloading and collected by the Land Transportation Office (LTO), is envisioned as a new source of funding to finance road maintenance and minimize air pollution. MVUC is considered the third biggest source of tax revenue for the government, contributing an

additional 40 percent of available funds for maintenance of national roads.

According to Republic Act (RA) 8794, funds collected from the MVUC should be placed in four special accounts in the National Treasury: Special Road Support Fund (80%), Special Local Road Fund (5%), Special Vehicle Pollution Control Fund (7.5%) and Special Road Safety Fund (7.5 %). The tax forms the bulk of the annual motor vehicle registration.

The law also created the Road Board to ensure the prudent and efficient management and utilization of the MVUC fund. It is assisted by the Road Board Secretariat (RBS), which is responsible for the implementation of Board decisions and the day-to-day operation of the management of the Special Funds.

In her presentation at the HOR last December 8, PIDS Consultant and UP National Center for Transportation Studies Director Dr. Ma. Sheilahn Napalang noted that recording of MVUC

deposits can be made transparent and efficient through automation, regular reconciliation of records of the LTO and the Bureau of Treasury, and random audits. She added that automating the recording and encoding of collections and deposits will reduce human errors.

Napalang also pointed out the lack of a definitive operating procedure system in identifying and prioritizing projects under the MVUC fund.

Based on the discussion by the PIDS study team with the different Road Program Offices (RPOs) of the Department of Public Works and Highways (DPWH), it was intimated that projects are proposed by the District Engineer Office (DEO) or the regional offices and not generated by DPWH-RPO using the Highway Development and Management model-4 (HDM-4) as stipulated in the MVUC Act. This also validates the 2011 finding of the Commission on Audit on the “lack of effective procedures by the Planning and Evaluation Division of the RBS in the evaluation of 1,011 projects amounting to PHP 7.99 billion,” Napalang stated.

Thus, Napalang recommends that for the special accounts under the DPWH, advance planning, programming, and project proposal development must be done within the DPWH itself. Also, the process should conform to RA 8794, wherein DEOs and RPOs must submit their proposed projects to the DPWH Central Office and that projects are prioritized using the HDM-4.

In terms of approval and release, Napalang highlighted the lack of a systematic way for proponents to track their proposals due to considerable time gap between request for the project and the eventual release of the Special Allotment Release Order. She also

pointed out the incapacity of the RBS to undertake monitoring and evaluation of MVUC projects given its limited technical personnel.

To solve these issues, she recommended that information system and communication channels with local government units be strengthened, particularly for conditionalities and eligible work categories.

Moreover, she advised the setting up of a monitoring system to facilitate project implementation and detect possible implementation problems. It is also important to strengthen the RBS auditing system and to explore a third-party auditing setup, she said.

To improve transparency, Napalang suggested that information on projects

undertaken for the last five years be published in the Road Board website, along with a clear timeline from submission of project proposal to the Board's approval or disapproval.

Another recommendation is to require project proponents to have an appropriate impact evaluation plan, where expected outputs and outcomes are stated.

Finally, she suggested that instead of abolishing the Road Board, it is more worthwhile to strengthen its oversight capability and transparency through at least three measures: (1) restructure it to include other road users aside from transport and motorist organizations, (2) make the Road Board's reports easily accessible to the public, and (3) reorient the RBS as a fund manager and not an implementing agency. **GGM**



The potentials... from p. 3

Moving forward

The compounding issues the PCIC is confronting on a daily basis may be addressed by involving LGUs in resource-based partnerships. According to Reyes, LGU-PCIC partnerships can possibly increase coverage rate of insured farmers, especially those who are not in the RSBSA program.

Different modalities in the LGU-PCIC partnership, such as full premium subsidy by the LGU or provision of loans to farmers as the LGU's counterpart

in the insurance premium, can also be explored.

“Crop insurance improves farmers’ welfare, as measured by net farm income. Improvements in the design and implementation of the program, particularly with regard to the penetration rate and insurance cover, can further increase these benefits. This will make crop insurance an effective risk management tool,” said Reyes.

Reyes also recommended exploring the role of PCIC as a reinsurer. This, she

said, can encourage private insurance companies to offer agricultural insurance, thereby increasing penetration rate.

This PIDS study led by Reyes was conducted in collaboration with major universities around the country, namely, Cagayan State University, University of the Philippines (UP) Los Baños, UP Visayas in Iloilo, University of San Carlos, and University of Southeastern Philippines. (*See individual articles for the rice sector in Western Visayas [p. 4] and banana sector in Davao region [p.5].*)

MVPA

Gov't insurance... from p. 5

However, even if they are aware of PCIC services, there are simply very few farmers who are willing to pay for the crop insurance premium.

On the average, farmers are only willing to pay PHP 1,278.87 for a maximum coverage of PHP 300,000 per hectare, instead of the annual premium of PHP 10,500. This reflects the need to “reduce the burden of the premium rates to the farmers to motivate them to produce more without the fear of possible loss or risk”, the study stated.

PIDS fears, however, that “the reliance of farmers on government subsidy entails a future problem on the sustainability of the PCIC.”

“Unrealistic” premium and coverage rates

Meanwhile, the study also found that the uniform premium and coverage rates of the crop insurance are “unrealistic”. This is because banana farmers face different sets of challenges based on their risk exposure and other factors.



According to the Philippine Statistics Authority, a total of 3.2 million metric tons of bananas were exported in 2014, making it the most valuable agricultural export in the same year. Photo shows a farmer working in a banana plantation in Davao del Sur. (Photo by Asian Development Bank)

The government think tank, thus, calls for the conduct of scientific surveys at the district level to consider variations in climate factors and cost of cultivation that can affect the amount of yield of banana production.

On their part, the PCIC said they are piloting a weather index-based crop insurance in select areas to help farmers in disaster-prone areas to recoup their

crop losses as a result of extreme weather conditions.

Banana was among the country's major crops by volume of production in 2014, with a total of 8.8 million metric tons—roughly 40 percent of which came from Davao region. It was also the most valuable agricultural export that year, with a total of 3.2 million metric tons, according to the Philippine Statistics Authority. **RGV**

Research Digests

Policy Notes No. 2016-19

What Do Statistics Say about Basic Education in the Philippines?

by Jose Ramon G. Albert

This study assessed the performance and internal efficiency of the basic education sector through the Department of Education's Enhanced Basic Education Information System and the Philippine Statistics Authority's Annual Poverty Indicators Survey. Both the administrative system and the survey revealed improvements in school participation as a result of the investments made by the Aquino administration to the education sector, as well as the implementation of universal kindergarten and the conditional cash transfer (CCT) programs. However, it is apparent that some children are still being left behind in the provision of opportunities to attain their rights to basic education. In light of these findings, this *Policy Note* urges the current administration to continue the support for basic education. A reexamination of the CCT and school feeding programs, among others, is also being recommended.

Policy Notes No. 2016-20

Compensatory Payment Scheme for Rice Farmers after Tariffication

by Roehlano M. Briones and Lovely Ann C. Tolin

In 2017, the special treatment in rice granted to the Philippines that allows the country to maintain its import monopoly will expire. This lifting is expected to result in massive fall in domestic prices, which will reduce farmers' income. This *Policy Note* assesses the agricultural support options for rice farmers upon the expiration of the special treatment. It identifies decoupled payment, a form of assistance to farmers in their transition to a free market, combined with a 35-percent tariff equivalent as a possible support. Assessment shows that this compensatory transfer scheme can operate at a feasible cost, with 35-percent tariff rate applied. It also finds earmarked rice tariff revenue as a feasible funding strategy to pay for the compensation scheme.

Discussion Paper No. 2016-40

Rent Control in the Philippines: An Update

by Marife F. Ballesteros, Tatum P. Ramos, and Jasmin E. Magtibay

Rent control was introduced in the Philippines in 1971 to stabilize the prices of basic commodities during periods of calamities and macroeconomic instability. It has been adopted in succeeding years despite the country's exit from the highly inflationary environment. Rent control-related policies, however, have had adverse impacts on

the rental market. Consequently, the Philippine government has made changes to the original rent control setup—a move from the first to the second generation rent control. This study specifically determines whether second generation rent control is indeed free of the adverse impacts of its predecessor. It uses the 2014 Annual Poverty Indicators Survey to have an estimation of the net benefit of tenants under rent control.

Discussion Paper No. 2016-41

Research on Urban Resilience to Natural Disasters of Households, Firms, and Communities in the Philippines

by Danilo C. Israel and David Feliks M. Bunao

The paper looks into the current socioeconomic research on resilience to natural disasters among urban households, firms, and communities in the Philippines. It reviews the related analytical frameworks, methodologies, and empirical studies already available with the end purpose of identifying research gaps and recommending studies and actions that can be undertaken to address them. The paper explains that the Philippines and Manila, at present, are among the least resilient countries and cities in the world, respectively. Furthermore, it finds that there are already a number of empirical studies covering resilience of households, firms, and communities, particularly to natural disasters, than have been conducted in specific urban areas like Metro Manila and other Philippine cities.

From the review, the paper identifies some gaps in the current research on urban resilience and recommends specific researches and related activities that can be undertaken in the future.

Discussion Paper No. 2016-42

Impact Evaluation of the Banana Insurance Program of the Philippine Crop Insurance Corporation in Davao Region

by Roperto S. Deluna Jr., Jennifer E. Hinlo, and Michael L. Ayala

Agricultural crop insurance is a risk management tool to counter shocks and risks in banana production. It is a mechanism for farmers to be protected from unexpected risks and a tool for them to recover from shocks experienced. The Philippine Crop Insurance Corporation is mandated to provide insurance protection to the country's agricultural producers, particularly the subsistence farmers, against natural disasters and other perils. This paper evaluates how agricultural insurance made an impact on banana growers in terms of managing risks and their well-being. The inputs, outputs, and outcomes relative to risk,

agricultural investment, productivity, and access to credit are documented to provide options and strategies in improving the agricultural crop insurance in the country.

Discussion Paper No. 2016-45

Warehouse Receipts as a System for Improving the Efficiency of Rice and Corn Marketing in the Philippines

by Roehlano M. Briones and Lovely Ann C. Tolin

In the Philippines, the rice and corn sectors play an integral role in the agricultural economy in terms of production and employment. However, both sectors suffer from inefficiencies in the marketing. Farmers also find difficulty in obtaining short-term loans from banks; hence, they resort to informal loans with high interest rate. This paper explores the warehouse receipt system as a platform for transforming the marketing chain in the grains market of the Philippines. Salient features of an effective warehouse receipt system are outlined based on literature review and international experience. Assessment of Philippine experience shows that while a legal framework is already in place, a warehouse receipt system in grains is currently non-operational. Key recommendations of the study include strict enforcement of grain grades and standards, pilot testing of the warehouse receipt system in a suitable area, and legislative reforms to establish a sound legal and regulatory framework for a warehouse receipt system.

Discussion Paper No. 2016-46

Why Manufacturing Resurgence Will Mean More Services, Not Less

by Ramonette B. Serafica

Services are critical inputs in manufacturing production, and this is likely to intensify with the advent of new technologies. Based on the trade in value-added data of the Organisation for Economic Co-operation and Development, the share of services embodied in Philippine manufacturing exports is among the lowest in the region. Moreover, value added from "ICT services" and "Other business services" seem inadequate compared to patterns observed in other countries, while the share of "Wholesale and retail services" is significantly high. To sustain manufacturing resurgence, reliable, good quality, and affordable services are essential. Thus, the government should vigorously undertake structural reforms particularly in services needed by producers and exporters. Improving the regulatory regime for services trade is especially crucial to enable manufacturing firms to participate and move up global value chains.

Editor's... from p. 1

may be attributed to the implementer's low presence at the grassroots, the insufficient amount of insurance coverage, and the inefficient settlement of claims. Digging further, the study also finds the implementer mired in a tightrope situation due to a perennially limited budget. All of these signal the cracks in the AIP that should be sealed, so that the program will ultimately serve its purpose.

This call (for program enhancement) also goes to the implementers of the Students' Grant-in-Aid Program for Poverty Alleviation (SGP-PA) and the Utilization of the Motor Vehicle Users Charge (MVUC) fund, which are also featured in this issue. The SGP-PA assessment shows it is deficient in support

services needed by the scholars to complete their degrees, such as additional grant to pay for summer courses, field trips, thesis, and on-the-job training. Meanwhile, the MVUC study discloses discrepancies in the records of fund deposit, poor selection of projects for funding, poor project monitoring, and lack of impact evaluation of completed projects.

This issue also highlights the value of collaborative partnerships as avenues for shaping and enriching policy discourse and development, policy research, and knowledge exchange. This is exemplified in the Socioeconomic Research Portal for the Philippines (SERP-P) project and the Institute's collaboration with fellow think tanks Korea Institute for International Economic Policy (KIEP) and Asia Competitiveness Institute of the Lee Kuan Yew School of Public Policy. Through SERP-P, various institutions across

the Philippines that generate socioeconomic studies have an open-access platform to share their knowledge resources with stakeholders and to promote the use of evidence-based research as a tool for more effective policymaking in the country.

Meanwhile, international policy dialogues, such as the 12th East Asian Institutes forum jointly organized by PIDS and KIEP, helped provoke in-depth discussions of cross-border issues like the challenges of regulatory harmonization, improving the participation of small and medium enterprises in global value chains, and the potential impacts of Brexit on East Asia. These gatherings are important in today's complex and interconnected world where issues transcend national boundaries. Regional cooperation in policy design and implementation is essential to effectively address common development challenges.

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