

Nerlita M. Manalili

*Agro-industrial Development Program (AIDP)
SEAMEO Regional Center for Graduate Study
and Research in Agriculture (SEARCA)
PHILIPPINES*

The Challenge of Agribusiness: The Case of the Philippines

Presentation Outline

I. Agribusiness and Agricultural Development

II. Understanding the Philippine Agricultural Sector

•Key features

•Performance

•National

•ASEAN/Global

•Main Sources and Critical Elements of Growth

III. Learning from the Past

•Previous Program Thrust and Strategies

IV. Lessons Learned

V. Present Day Thrusts and Challenges

•AFMA and how to make it work (Makamasa)

•Upcoming Challenges

VI. Conclusion

Agribusiness

- *Primary production*
- *Upstream economic activities (production and distribution of all inputs and services used in on-farm production)*
- *Downstream industries (processing, manufacturing, transportation and related services)*
- *Involved in transforming raw agricultural produce into finished products for domestic consumption or export*

Agro-industrial Development

A balance between agriculture and industrial development where one provides the requirements of the other and where rural and agribusiness development are recognized as strategic development prerequisites

The Philippine Agricultural Sector Key Features (1999)

Population, Employment and Wages

- 40% of the 74.7 M Filipinos were dependent on agriculture
- employs 11.62 million individuals
- daily wage rate ranges from 117.24 - 139.73

Government Expenditure, Budget and Support Systems

- 3.3 % share of the total national budget
- 75 % of funds went to agriculture
- irrigation services covers only 43.19 % of total irrigable area
- 43 % of fertilizer supply were imported

The Philippine Agricultural Sector Key Features (1999)

Economic Performance

- Agriculture contributed about 20% of the gross domestic product valued at 870 Billion pesos
- A comfortable increase of 6.7 % in Gross Value Added except for a slight slide in 1998
- Growth of GDP (3.2 % in 1999) is led by the crop sub-sectors

Economic Policy Structure

- over-valued peso (exchange rate)
- high interest rate (relative to ASEAN)

The Philippine Agricultural Sector Key Features (1999)

Top Five Commodity Exports

1. Coconut oil
2. Banana
3. Raw centrifugal sugar
4. Canned pineapple
5. Dried coconut

Top 5 Commodity Imports

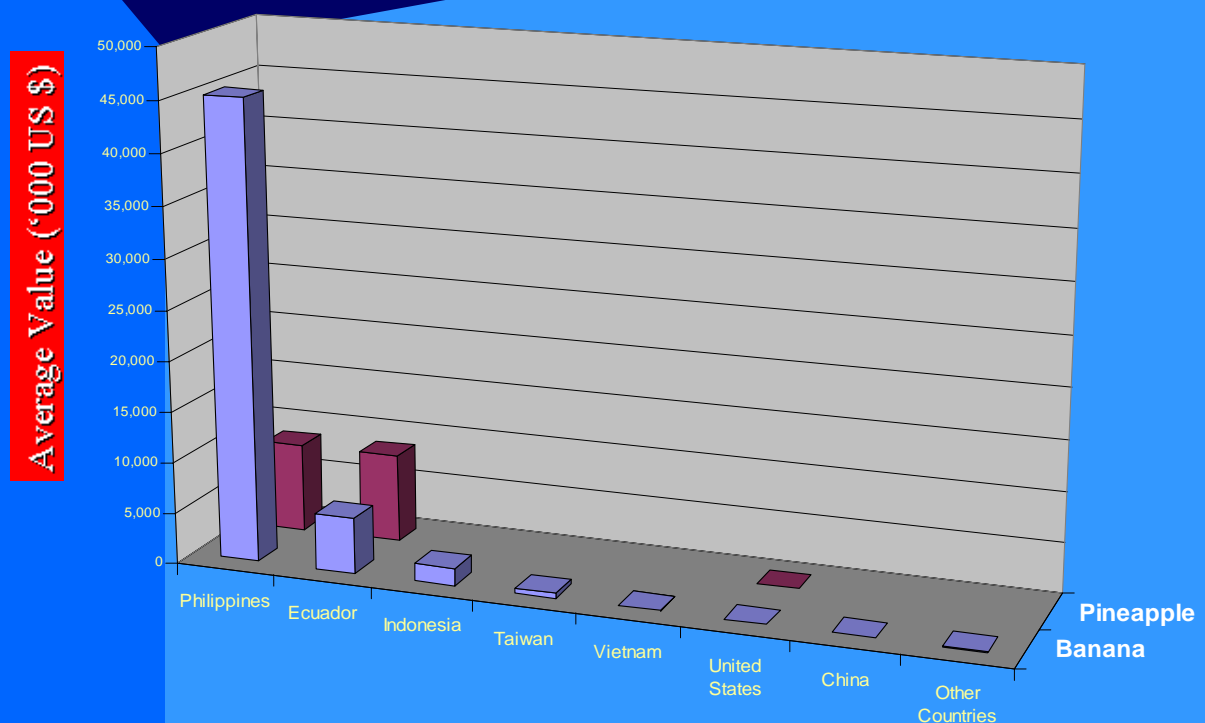
1. Rice
2. Wheat
3. Cake of soya beans
4. Dry skim milk
5. Corn

* Except for raw sugar (also a leading export of Thailand), the export earners of the Philippines were different from its neighboring countries.

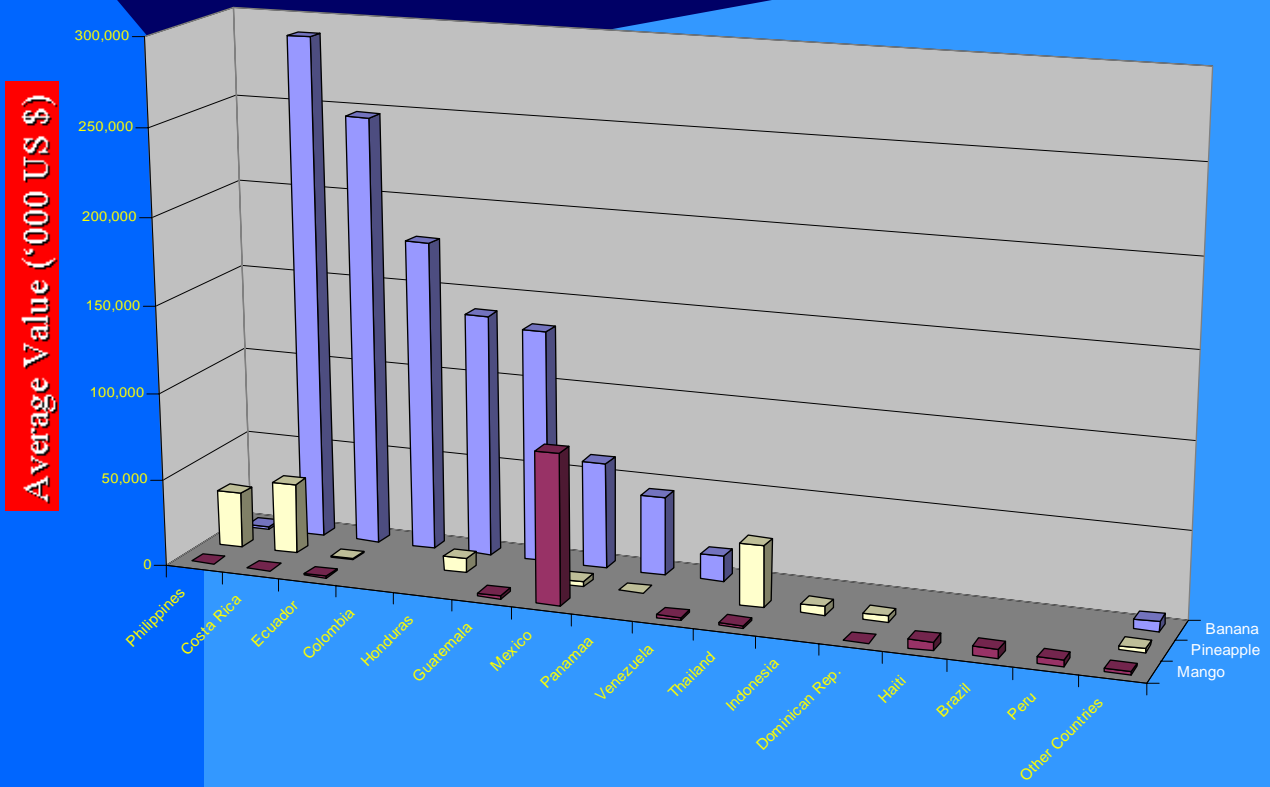
* Wheat, soya, and milk were common imports with neighboring countries.

* Fishery products are fast becoming an export performers in terms of value (shrimp & prawns) next to coconut products

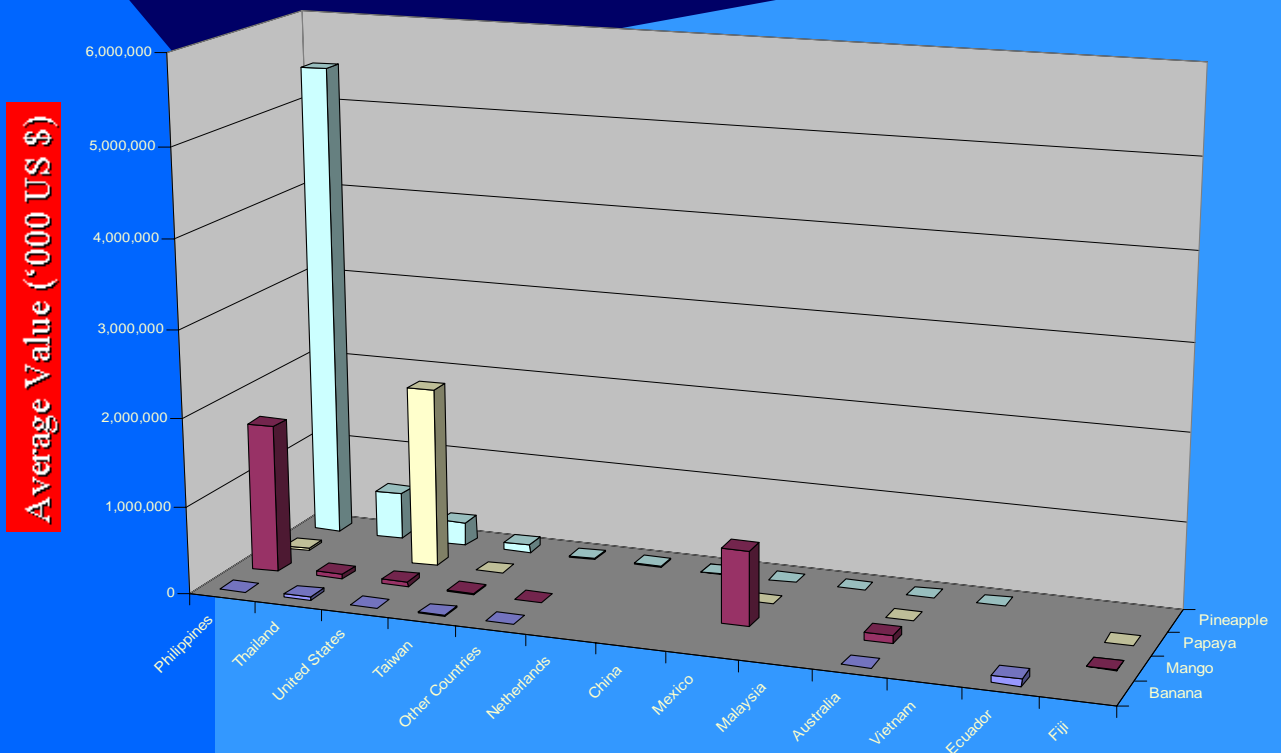
Philippine Export Performance to Korean Market



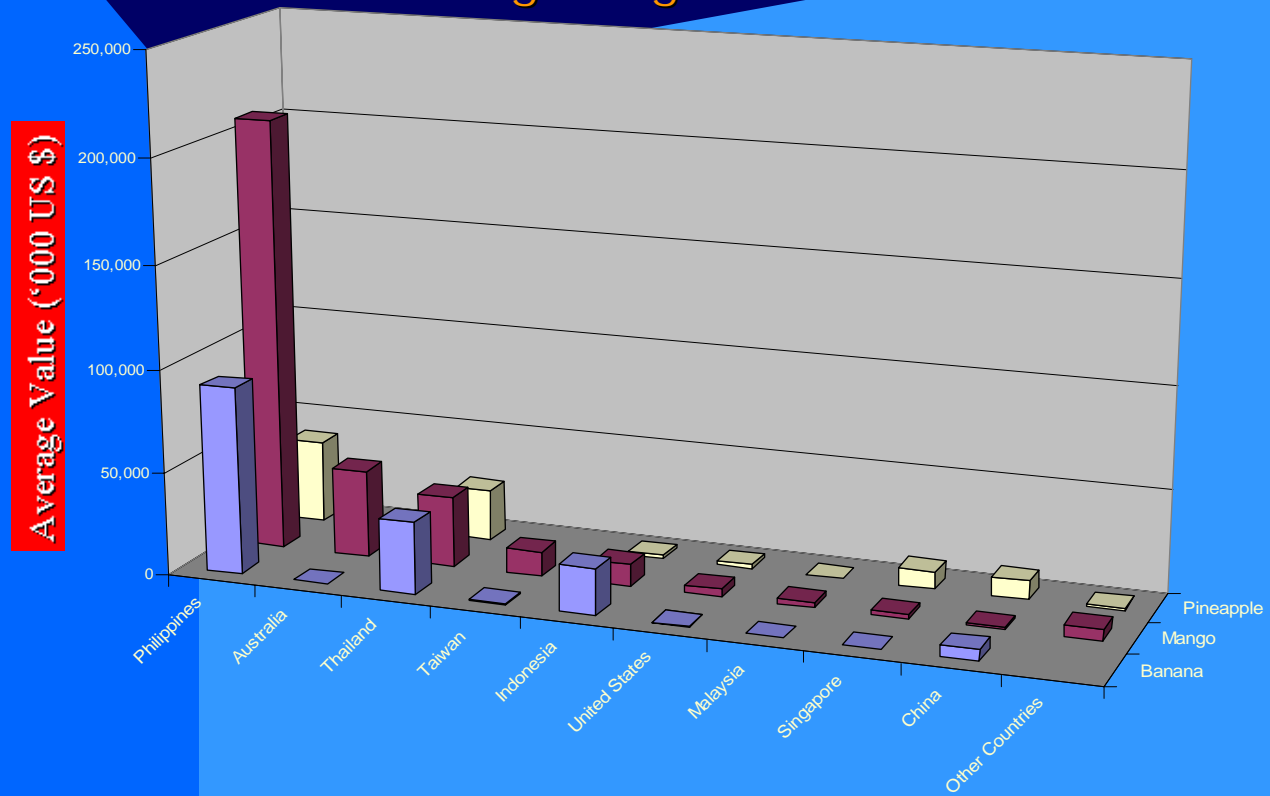
Philippine Export Performance to United States Market



Philippine Export Performance to Japanese Market



Philippine Export Performance to Hong Kong Market



Major ASEAN Producers (Hectarage)

Rice	Indonesia	Thailand	Vietnam
Corn	Indonesia	Philippines	Thailand
Coconut	Philippines	Indonesia	Malaysia
Rubber	Indonesia	Malaysia	Thailand
Mangoes	Indonesia	Thailand	Philippines
Pineapple	Thailand	Philippines	Indonesia
Banana	Philippines	Thailand	Vietnam
Coffe	Indonesia	Philippines	Vietnam

Major ASEAN Producers (Production)

Rice	Indonesia	Vietnam	Thailand
Corn	Indonesia	Thailand	Philippines
Coconut	Indonesia	Philippines	Malaysia
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Pineapple	Thailand	Indonesia	Philippines
Banana	Philippines	Thailand	Vietnam
Coffe	Indonesia	Vietnam	Philippines

Philippine Agriculture Major Sources and Key Elements of Growth

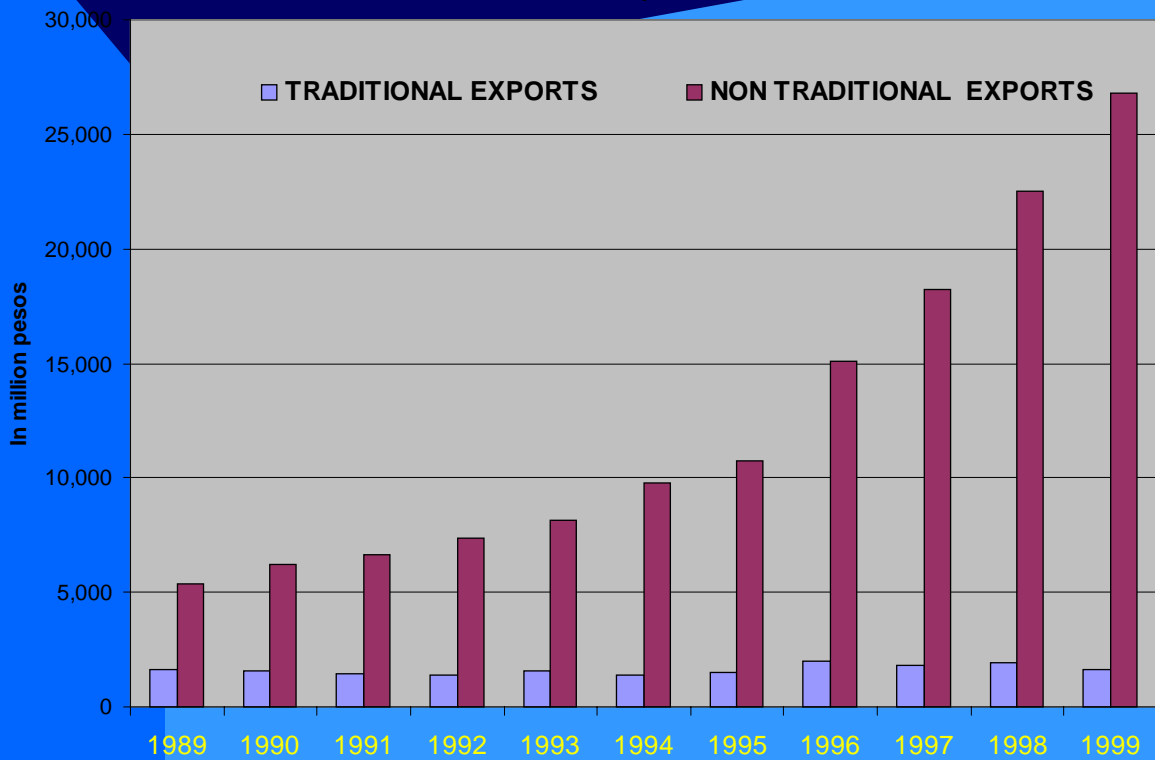
< 1971	1971-1996
<ul style="list-style-type: none"> • Export demand (primarily US market) • Crop sector (rice, corn, sugar, coconut) • Land expansion 	<ul style="list-style-type: none"> • Crop sector, non traditional commodities (mangoes, banana, onions, garlic) • Livestock sector growth rate contribution increasing • High pay-off inputs (fertilizer, varieties, irrigation) • Trend towards regional commodity specialization • Private sector, a reliable source of investment funds in agriculture

Notes:

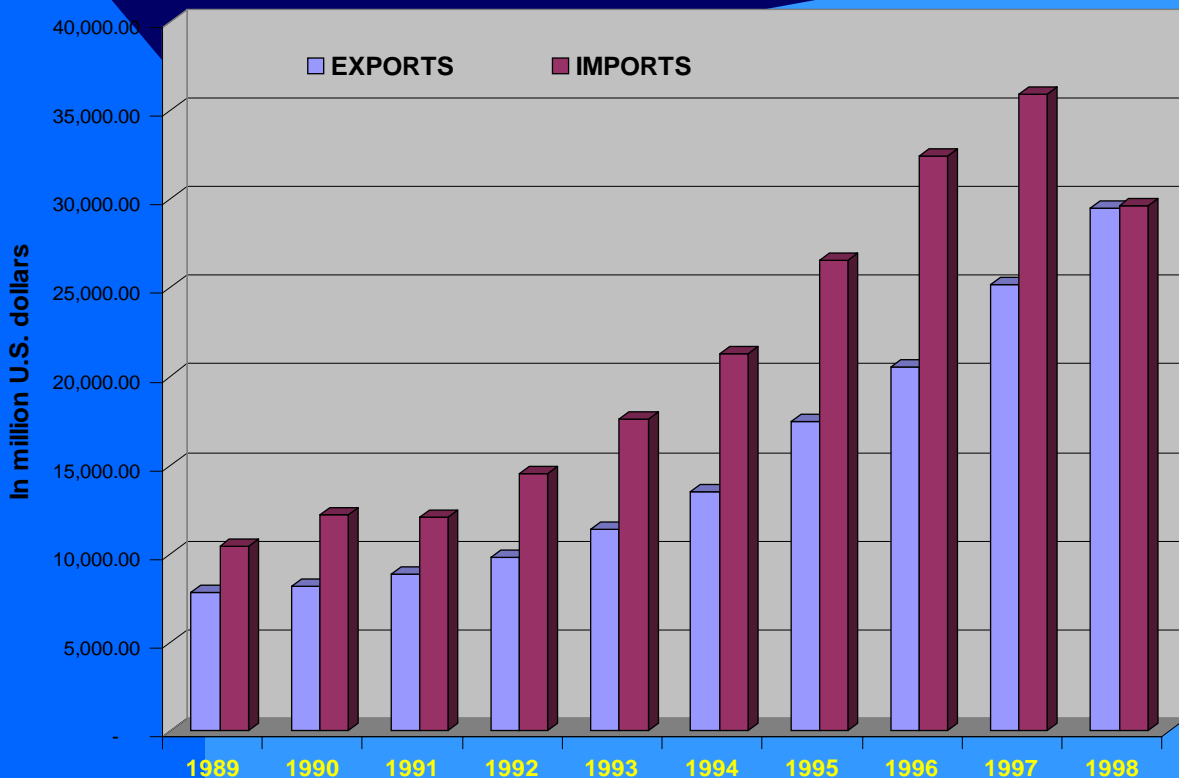
High pay off - improvements in land productivity

Regional commodity specialization - soil, weather irrigation facility concentration

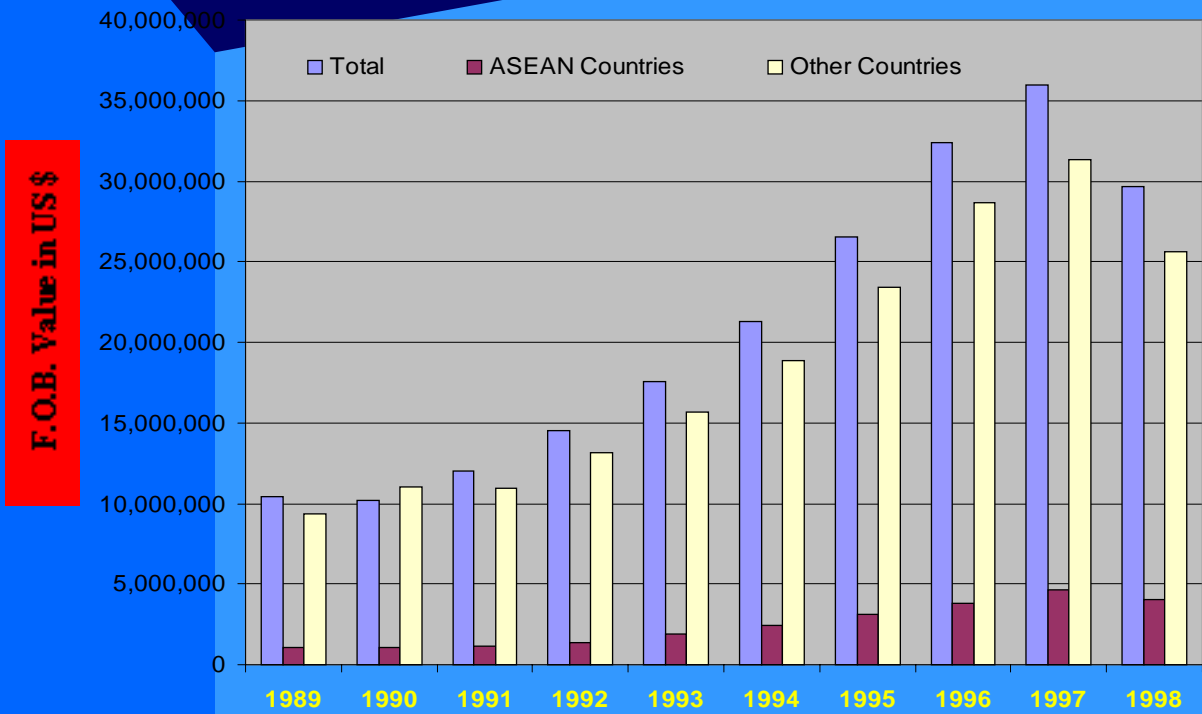
Value of Philippine Traditional and Non-Traditional Exports, 1989-1998.



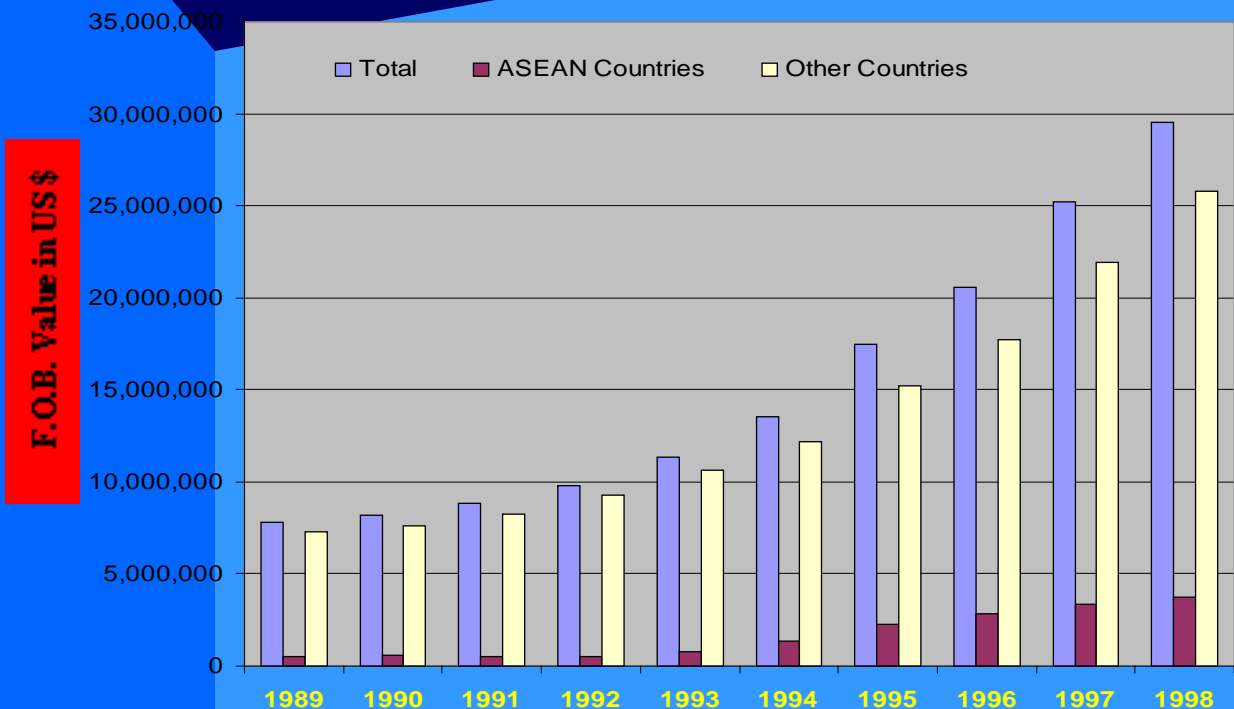
Value of Philippine Exports and Imports, 1989-1998.

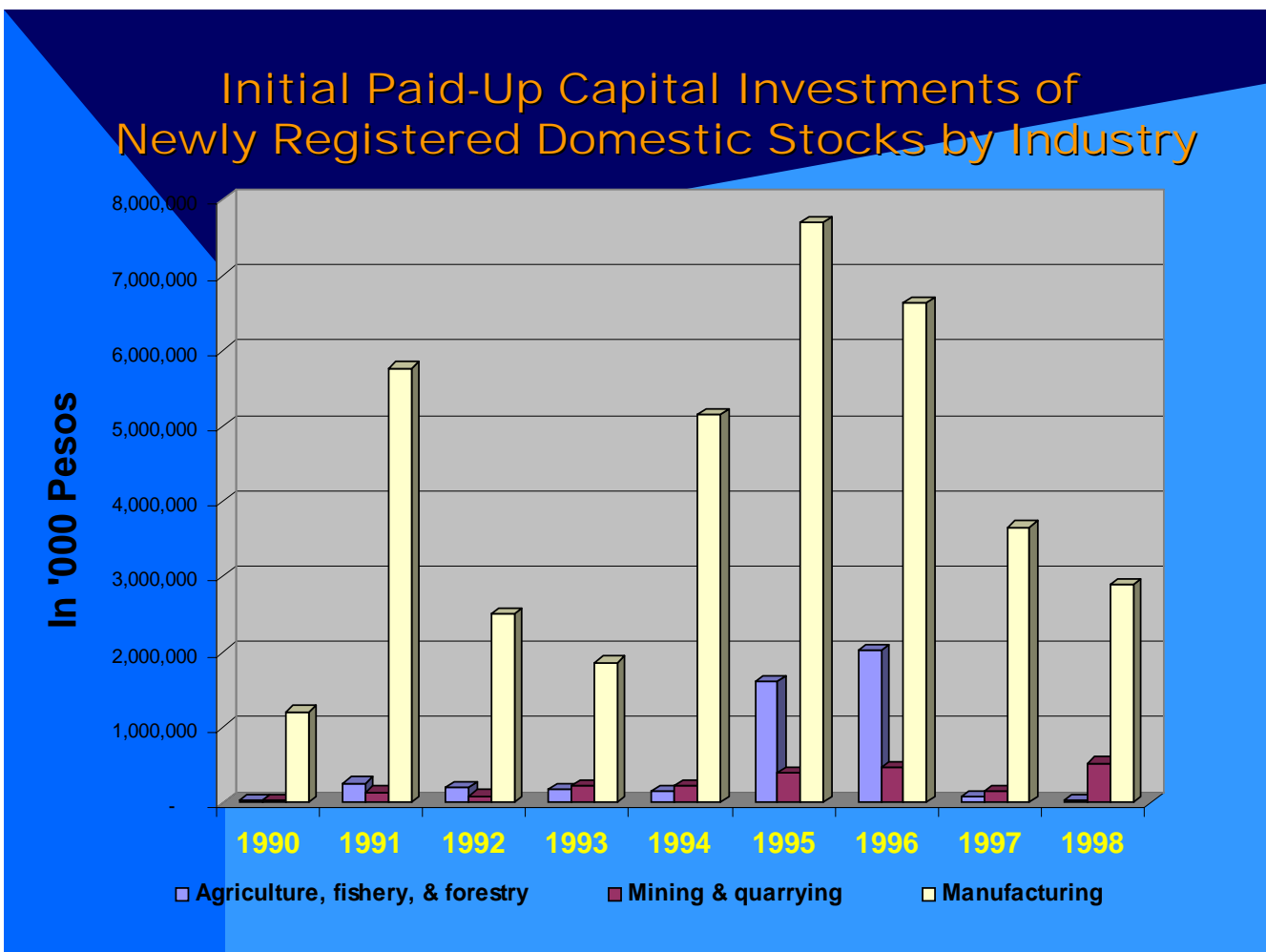
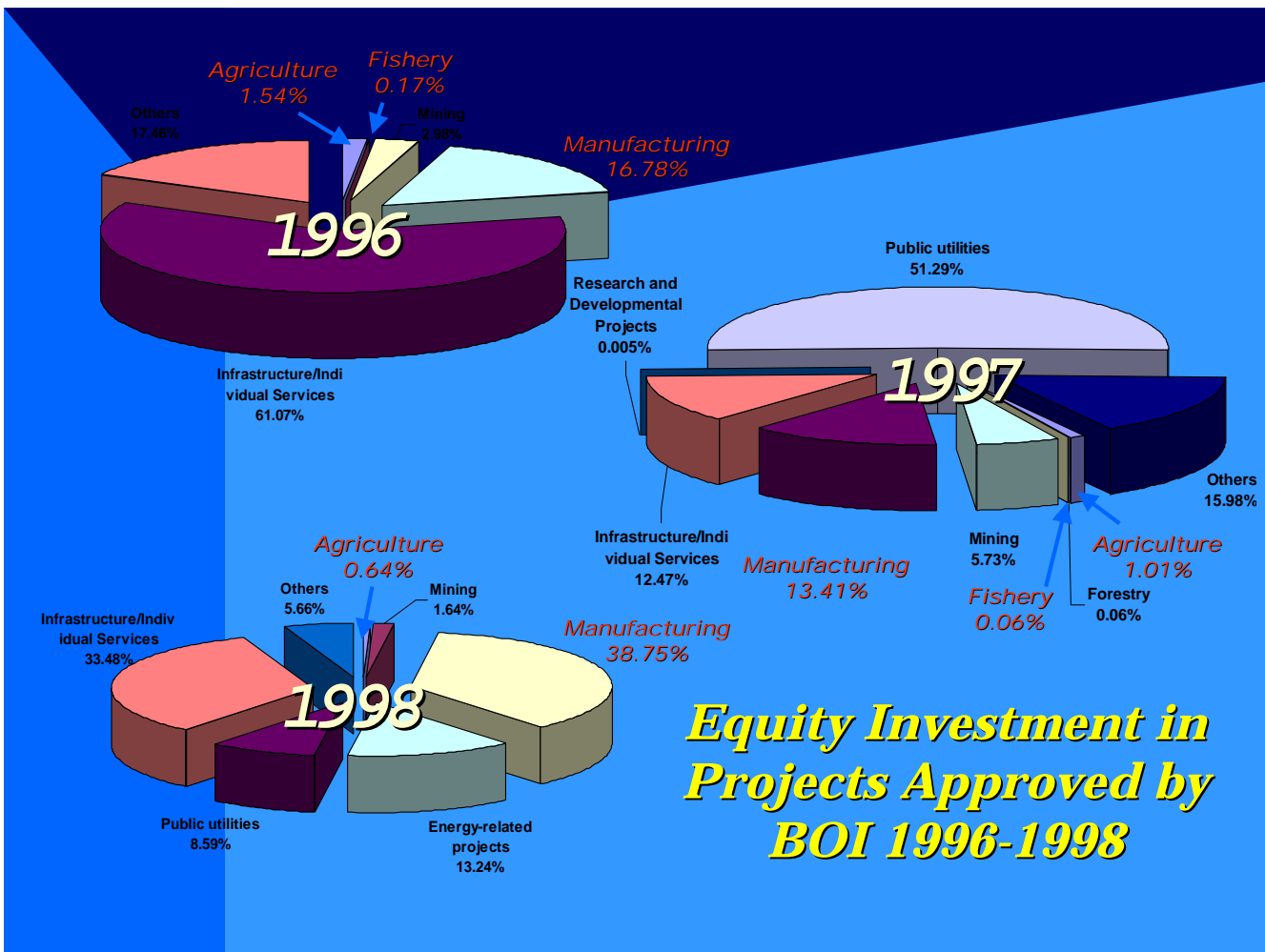


Direction of Trade by Imports, 1989-1998

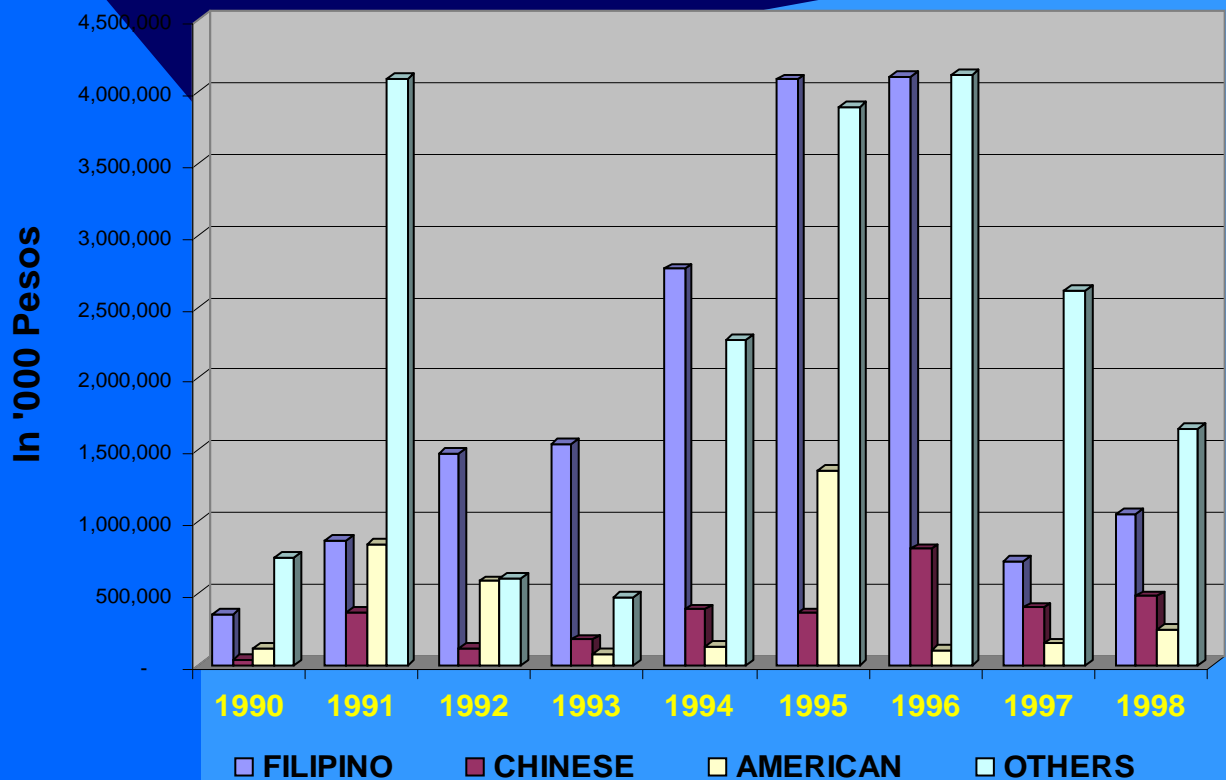


Direction of Trade by Exports, 1989-1998





Initial Paid-Up Capital Investments of Newly Registered Domestic Stocks by Nationality



Programs

1988 - 1991

Livelihood Enhancement for Agricultural Development

1992 - 1994

fast track development in the rural communities to increase income through profitable enterprise (locally developed technologies)

1995-1997

Gintong Ani Program - Key Production Areas

1998-date

Makamasa program

Increase productivity and production, as well improve farmers' income and quality of life

Lessons Learned

1. **Congruence between set program objectives and implementation strategy.**

2. **Systems perspective, where all subsystems should be sufficiently in place in order for the program to succeed.**

3. **Proper support and incentives should be provided.**

4. **Baseline information should be sufficiently established prior to implementation. Mid-term evaluation of long-term programs need be conducted timely and corrective measures if necessary.**

5. **As key ingredients for success, particularly for the LEAD Program, the following must be provided:**

sufficient funding assistance

full technical support

market linkage

strong rural organizations

well-equipped program organizational machinery

integrity and commitment of both implementers and beneficiaries

LEAD Project

1. Beneficiaries 4,240 projects 240,000 individuals

2. Status

* Completion	Completed	83%	83%
	Partially	12%	12%
* Repayment (matured loans)		21%	P 29.7 M out of P 142.3
* Rolled over			P 13 M

3. Economic Impact

Incremental Income Reported - 61.50%
- livestock projects (negative income contribution)

4. Environmental Impact

Considered non critical except for 9 cases

Programs/Thrust	Issues
1. Import Substitution 1970-1980	<p>Strongly biased in favor of manufacturing industries</p> <p>Effective protection rates (EPR) enjoyed by the manufacturing sector was almost 5x that of the agricultural sector</p>
2. Liberalized trade policy	<p>Promote competition in industrial sector, equalize tariff protection among industries to eliminate biases, promote an outward looking development strategy</p> <p>Privatization of importation</p>
3. Food Security	Adequacy and sufficiency at affordable prices [choice between high priority staple crops (rice and corn) and high value crops.
4. Agriculture and Fishery Modernization	How well the plan can be implemented?

Policy Environment and Implications

Policy Considerations	Implications
1. Comprehensive Agrarian Reform Law (1998) Authorizes the government to acquire by purchase all agricultural lands in excess of five hectares per landowner plus three hectares per qualified dependent for distribution by sale to tenants farm workers, and other qualified landless individuals	<ul style="list-style-type: none"> • Consolidation of commercial farms • Transferring of ownership and management to ill-prepared tenants • Lands leased back to farmer owners
2. The Philippines acceded to the World Trade Organization and the ASEAN Free Trade Agreement	<ul style="list-style-type: none"> • Borderless economy • Enhanced competition • Global competitiveness

Present Day Challenges

Environment and Export Competitiveness

Green purchasing

Fast becoming a trend in promoting trade and environmental sustainabilities particularly the practice of applying environmental criteria to the selection of products and services

Environmental Policies in Government Export Promotion

The environmental quality of products and production processes is becoming more important as a factor in international competitiveness and may increase environmental standard setting as an instrument to induce technological innovation and to improve trade performance

Impact on Production Cost

Environmental policy/trade preference compliance entails cost. There is a need to find cost effective ways of adhering to environmentally sound development while maintaining dynamic export growth.

Present Day Challenges to Agribusiness Development

- Biotechnology
- Food Safety
- Intellectual Property Rights
- Environmental Risk
- Globalization and Export Competitiveness

National Level

The imperatives for agricultural modernization highlighted by the Philippine commitment to WTO and other multi-lateral trade liberalization agreements.

Procedural Issues

1. How can the Philippines capitalize on the economic strengths brought about by agricultural modernization & industrialization to push Philippine products beyond the bounds of the domestic market?

Structural Issues

1. Monetary & fiscal policies to make peso competitive vis-à-vis Asean currencies?
2. Difficulties in implementing AFMA due to budgetary constraints.

Social Issues

1. Domestic consumer protection from sudden and abrupt global disruptions in world supply and world prices? (Or is there a need to protect them in the first place?)
2. What safety nets should be put in place to cushion the effects of liberalization?

FARMERS / FISHERS LEVEL

Characteristics

1. Subsistence level.
2. Majority of the rural poor
3. Risk averse & pessimism
4. Small land-holdings
5. High risk credit-group
6. Disorganized
7. Low level formal educ
8. highly versed with indigenous knowledge

Structural Issues

1. Limited small landholdings potentials due to agrarian reform
2. Farmers and fishers have very limited access to credit
3. difficulties adopting modern technologies or using imported inputs due to high cost

Procedural Issues

1. Acceptability of modern technologies
2. Grasp of technical issues - problem of extension work
3. Organization of farmers / fishers to informal/formal groups
4. Participative approach / bottom-up involvement in planning and strategizing.

Social Issues

1. The poorer the people, the further they contribute to natural resource degradation and over-exploitation

SECTORAL LEVEL

Characteristics

1. Most controlled sector by the government.
2. High tariffs on imported production inputs
3. Highly unproductive & weather dependent
4. Highly protected industries such as rice
5. Agricultural investments in R&D lowest in the region.
6. Extensive Environmental degradation of aquatic ecosystems
7. Budget for AFMA in implementation slow in forthcoming

Structural Issues

1. Private investments have been postponed due to the uncertainty brought about by CARL
2. The high ban retailing and monitoring cost in rural finance
3. perceived bias against agriculture by banks due to perceived high risk involved and long gestation
4. High production cost; high importation tariffs

LINE AGENCIES LEVEL

Characteristics

1. Bureaucratic in nature
2. High political considerations
3. Responsible for the general directions and policy thrusts and implementation of laws

Structural Issues

1. Budgetary constraints, lack of political will, prolonged litigation contributed to slow implementation of land distribution
2. The absorptive capacity of DA for all the development resources allocated to implement AFMA.
3. political will of LGUs to undertake agricultural modernization

Procedural Issues

1. Inter-governmental coordination between DA & LGUs; DA & DENR; DA & DTI etc.
2. Involvement of the LGUs and other stakeholders in participatory development planning for a bottom-up approach on agricultural modernization

Key Intervention Points	Intervention Cost	Urgency	Possible Impact		
			Short Term	Med Term	Long Term
1. Production & Marketing Support Services					
Strategic Agricultural & Fisheries Development Zones	Low (0.25%)*	Immediate	Structural		High
Agriculture and Fisheries Modernization Plan Food Security Poverty Alleviation and Social Equity Income Enhancement and Profitability Global Competitiveness Sustainability		Immediate	Structural		High
Information & Marketing Support Service	Low (12%)	Immediate	High, if done properly		
The Marketing Assistance System					
The National Information Network					
2. Credit					
Phase-out of Directed Credit Programs	Low (10%)	Immediate	High	High	
Provision for the Agro-Industry Modernization Credit					

Key Intervention Points	Intervention Cost	Urgency	Possible Impact		
			Short Term	Med Term	Long Term
3. Irrigation & Other Infrastructure					
Fishports, seaports, airports	High (50%)	Immediate but dependent on SAFDZs identification	High		
Farm-to Market roads					
Rural energy					
Communication infrastructure					
Water supply System					
R&D Infrastructure					
Post-harvest facilities					
Public Market abattoirs					
Agricultural Machinery					
4. Product Standardization & Consumer Safety					
Bureau of Agriculture & Fisheries Product Standards	High	No immediate impact but necessary for export products			High
5. Human Resource Development					
NAFES	Low (13%)	Immediate		High	High
National Centers of Excellence					
Rationalization Plans					
National Integrated Human Resource Dev't Plan					
Agriculture and Fisheries Board					

Key Intervention Points	Intervention Cost	Urgency	Possible Impact		
			Short Term	Med Term	Long Term
6. Research & Development Extension	Low (10%)	Mainly organizational restructuring and re-orientation		High	
National Research & Development System CERDAF National Extension System for Agriculture & Fisheries (NESAF)					
7. Rural Non-farm Employment		By-product of industrialization; shld be private sector led			High
8. Trade & Fiscal Incentives	Low	Immediate, but only procedural	High		
Enterprises engaged in agriculture and fisheries shall be exempted from the payment of tariff and duties for the importation of all types of agricultural and fisheries inputs, equipment and machineries.					

*initial appropriation of P 20 Billion

Conclusions

1. Agribusiness development challenge is enormous
2. The job is not for the traditionally production-oriented Department of Agriculture alone; Other line agencies need to be involve in addition to the private sector R&D [Department of Science and Technology, Marketing and Promotion Department of Trade and Industry, Infrastructure Support Department of Public Works and Highways]
3. It should be done with a market oriented production planning based on appropriately assessed market potential aided by improved market information and appropriate processing technologies
4. It can be done with the right governance, political will and support.