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 (Makam asa)
   - 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 bans went to agriculture
- irrigation services covers only 43.19% of total irrigable area
- 43% of fertilizer supply were imported

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. Desiccated 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 exporters 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 performer in terms of value (shrimp & prawns) next to coconut products.
**Philippine Export Performance to Hong Kong Market**

**Major ASEAN Producers (Hectarage)**

- **Rice**
  - Indonesia
  - Thailand
  - Vietnam

- **Corn**
  - Indonesia

- **Coconut**
  - Philippines
  - Indonesia
  - Malaysia

- **Rubber**
  - Indonesia
  - Malaysia
  - Thailand

- **Mangoes**
  - Indonesia
  - Thailand
  - Philippines

- **Pineapple**
  - Thailand
  - Philippines
  - Indonesia

- **Banana**
  - Philippines
  - Thailand
  - Vietnam

- **Coffee**
  - Indonesia
  - Philippines
  - Vietnam
Major ASEAN Producers (Production)

<table>
<thead>
<tr>
<th>Crop</th>
<th>Major Producers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice</td>
<td>Indonesia, Vietnam, Thailand</td>
</tr>
<tr>
<td>Corn</td>
<td>Indonesia, Thailand, Philippines</td>
</tr>
<tr>
<td>Coconut</td>
<td>Indonesia, Philippines, Malaysia</td>
</tr>
<tr>
<td>Rubber</td>
<td>Indonesia, Thailand, Malaysia</td>
</tr>
<tr>
<td>Mangoes</td>
<td>Philippines</td>
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<td>Pineapple</td>
<td>Thailand, Indonesia, Philippines</td>
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<td>Banana</td>
<td>Philippines</td>
</tr>
<tr>
<td>Coffee</td>
<td>Indonesia, Vietnam, Philippines</td>
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</tbody>
</table>

Philippine Agriculture
Major Sources and Key Elements of Growth

<table>
<thead>
<tr>
<th>Period</th>
<th>Sources and Growth Elements</th>
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<tbody>
<tr>
<td>&lt; 1971</td>
<td>• Export demand (primarily US market)</td>
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<tr>
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<td>• Crop sector (rice, corn, sugar, coconut)</td>
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<td>• Land expansion</td>
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<tr>
<td>1971-1996</td>
<td>• Crop sector, non traditional commodities (mangoes, banana, onions, garlic)</td>
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<td></td>
<td>• Livestock sector growth rate contribution increasing</td>
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<tr>
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<td>• High pay-off inputs (fertilizer, varieties, irrigation)</td>
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<td></td>
<td>• Trend towards regional commodity specialization</td>
</tr>
<tr>
<td></td>
<td>• Private sector, a reliable source of investment funds in agriculture</td>
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</tbody>
</table>

Notes:
High pay-off improvements in land productivity
Regional commodity specialization - soil, weather, irrigation facility concentration
Equity Investment in Projects Approved by BOI 1996-1998

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

In '000 Pesos

Years: 1990 - 1998

- Filipino
- Chinese
- American
- Others

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: 83%
   - Partially: 12%

   - * Repayment (matured loans): 21% of P 29.7 M out of P 142.3 M
   - * 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
<table>
<thead>
<tr>
<th>Programs/Thrust</th>
<th>Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Import Substitution 1970-1980</td>
<td>Strongly biased in favor of manufacturing industries</td>
</tr>
<tr>
<td></td>
<td>Effective protection rates (EPR) enjoyed by the manufacturing sector was almost 5x that of the agricultural sector</td>
</tr>
<tr>
<td>2. Liberalized trade policy</td>
<td>Promote competition in industrial sector, equalize tariff protection among industries to eliminate biases, promote an outward looking development strategy</td>
</tr>
<tr>
<td></td>
<td>Privatization of importation</td>
</tr>
<tr>
<td>3. Food Security</td>
<td>Adequacy and sufficiency at affordable prices [choice between high priority staple crops (rice and corn) and high value crops.</td>
</tr>
<tr>
<td>4. Agriculture and Fishery Modernization</td>
<td>How well the plan can be implemented?</td>
</tr>
</tbody>
</table>

**Policy Environment and Implications**

<table>
<thead>
<tr>
<th>Policy Considerations</th>
<th>Implications</th>
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</thead>
</table>
| 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 | • 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 | • 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 multilateral 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 aversive & pessimistic
4. Small landholdings
5. High risk credit group
6. Disorganized
7. Low educational level
8. Highly versed in indigenous knowledge

**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.

**Structural Issues**
1. Limited small landholdings potential 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

**Social Issues**
1. The poorer the people, the further they contribute to natural resource degradation and overexploitation
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.

**Structural Issues**
1. Private investments have been postponed due to the uncertainty brought about by CARL.
2. The high loan retainer 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. Intergovernmental 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

<table>
<thead>
<tr>
<th>Possible Impact</th>
<th>Urgency</th>
<th>Intervention Cost</th>
<th>Short Term</th>
<th>Med Term</th>
<th>Long Term</th>
</tr>
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1. **Production & Marketing Support Services**

<table>
<thead>
<tr>
<th>Strategic Agricultural &amp; Fisheries Development Zones</th>
<th>Low (0.25%)*</th>
<th>Immediate</th>
<th>Structural</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and Fisheries Modernization Plan</td>
<td>Low</td>
<td>Immediate</td>
<td>Structural</td>
<td>High</td>
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<tr>
<td>- Food Security</td>
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<tr>
<td>- Poverty Alleviation and Social Equity</td>
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<tr>
<td>- Income Enhancement and Profitability</td>
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<tr>
<td>- Global Competitiveness</td>
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<tr>
<td>- Sustainability</td>
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</tbody>
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Information & Marketing Support Service

| The Marketing Assistance System | Low (12%) | Immediate | High, if done properly | |
|---------------------------------|-----------|-----------|-------------------------||
| The National Information Network |          |           |                         | |

2. **Credit**

<table>
<thead>
<tr>
<th>Phase-out of Directed Credit Programs</th>
<th>Low (10%)</th>
<th>Immediate</th>
<th>High</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for the Agro-Industry Modernization Credit</td>
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</tbody>
</table>

3. **Irrigation & Other Infrastructure**

<table>
<thead>
<tr>
<th>Fishports, seaports, airports</th>
<th>High</th>
<th>Immediate but dependent on SAFDZs identification</th>
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<tbody>
<tr>
<td>Farm-to Market roads</td>
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<tr>
<td>Rural energy</td>
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<tr>
<td>Communication infrastructure</td>
<td></td>
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<tr>
<td>Water supply System</td>
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<tr>
<td>R&amp;D Infrastructure</td>
<td></td>
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<tr>
<td>Post-harvest facilities</td>
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<tr>
<td>Public Market abattoirs</td>
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<tr>
<td>Agricultural Machinery</td>
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</tbody>
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4. **Product Standardization & Consumer Safety**

| Bureau of Agriculture & Fisheries Product Standards | High | No immediate impact but necessary for export products | |
|-----------------------------------------------------|------|------------------------------------------------------||

5. **Human Resource Development**

<table>
<thead>
<tr>
<th>NAFES</th>
<th>Low (13%)</th>
<th>Immediate</th>
<th>High</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Centers of Excellence</td>
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<tr>
<td>Rationalization Plans</td>
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<tr>
<td>National Integrated Human Resource Dev’t Plan</td>
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<tr>
<td>Agriculture and Fisheries Board</td>
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<table>
<thead>
<tr>
<th>Key Intervention Points</th>
<th>Intervention Cost</th>
<th>Urgency</th>
<th>Possible Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Research &amp; Development Extension</strong></td>
<td>Low (10%)</td>
<td>Mainly organizational restructuring and re-orientation</td>
<td>High</td>
</tr>
<tr>
<td>National Research &amp; Development System</td>
<td></td>
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<tr>
<td>CERDAF</td>
<td></td>
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<tr>
<td>National Extension System for Agriculture &amp; Fisheries (NESAF)</td>
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<td></td>
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</tr>
<tr>
<td><strong>Rural Non-farm Employment</strong></td>
<td></td>
<td>By-product of industrialization; should be private sector led</td>
<td>High</td>
</tr>
<tr>
<td><strong>Trade &amp; Fiscal Incentives</strong></td>
<td>Low</td>
<td>Immediate, but only procedural</td>
<td>High</td>
</tr>
<tr>
<td>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.</td>
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*Initial appropriation of P 20 Billion

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**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.**