



ARANGKADA  
PHILIPPINES

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The Asia Foundation

# Agribusiness

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ANZCHAM  
Philippines



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of the  
Philippines



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*Farmers in Cauayan City, Isabela Province. Corn is regarded as one of the most important staples of the Philippines. Source: BusinessMirror*

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Harvest season in Libungan, northwestern part of Cotabato | Source: GMA News.com

# A POLICY BRIEF ON AGRIBUSINESS IN THE PHILIPPINES

## I. OVERVIEW

From the inclusive growth perspective, agriculture is arguably the country's most important economic sector. The Philippine rural economy has been characterized for many years by the low income levels of primary producers, low levels of rural employment, lack of food security, weak exports, weak agricultural competitiveness, and overall high level of rural poverty. Among the basic sectors, farmers have the highest poverty rate. In 2015, the poverty incidence of farmers was at 34.3 percent, more than 50% higher than the national average of 21.6 percent. And yet the sector in 2018 continues to employ 24.4 percent of workers, or about 10.3 million people.

*Arangkada* Philippines is the major advocacy - launched in 2010 - of the Joint Foreign Chambers (JFC) to increase investment and employment in the Philippines. The JFC

advocates the *Arangkada* recommendations with the Government of the Philippines together with leading Philippine business groups. The JFC identified Agribusiness as one of seven "Big Winner Sectors" for investments and inclusive growth.<sup>1</sup> In 2015, *Arangkada* e-published Policy Brief No. 5 on Agribusiness, which made five sets of recommendations for the sector covering: 1) Market Access, 2) Access to Finance, 3) Freeing up the Land Market, 4) Infrastructure Investment, and 5) Rationalizing Extension Services.

This policy brief seeks to update the *Arangkada* recommendations in view of the significant developments within the sector since 2015. To inform this policy update, a Roundtable Discussion on Agribusiness in the Philippines was held July 2, 2019 at AmCham Hall, Makati, Philippines among private sector representatives and sector experts in the academe.

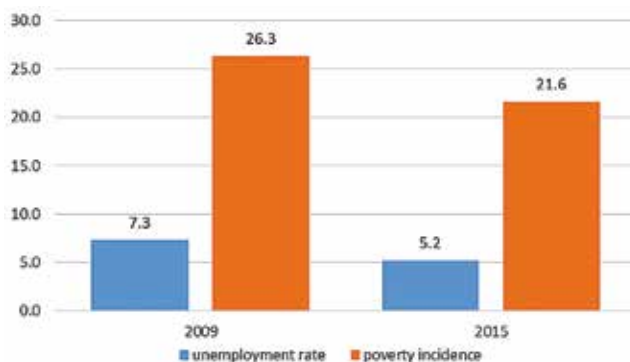
1 The seven sectors are Agribusiness, Business Process Outsourcing, Creative Industries, Infrastructure, Manufacturing and Logistics, Mining, and Tourism, Medical Travel and Retirement.

## II. BACKGROUND ON THE SECTOR

A. *Philippine agriculture remains a key source of livelihood for the poor and the main source of food for Philippine households.*

Poverty in the Philippines remained at over one-fifth of the population (21.6 percent), though down from more than a quarter of the population (26.3 percent) in 2009. Unemployment has also improved from a high of 7.3 percent in 2009 down to 5.2 percent in 2015 (Figure 1). In 2015, the primary occupation of 62.5 percent of all poor workers was in agriculture. At the time, workers in agriculture accounted for 29 percent of all workers. As of 2018, a significant share of the country's workers (24.4 percent) were still employed in agriculture. No growth in the Philippines can be truly inclusive unless it involves massive improvements in the living standards of agricultural households.

**Figure 1. Unemployment rate and poverty incidence of the population, 2008 and 2015 (%)**



Sources: PSA

Moreover, domestic agriculture is the source of most of the food consumption requirements of households in the Philippines (Table 1). The country is completely self-sufficient in cassava, sweet

potato, milkfish, and tilapia and close to 100 percent in round scad. Meat is 80 – 90 percent domestically produced. Despite the furor over rice imports following enactment of the rice liberalization law, more than ninety percent of rice consumed in the country in recent years was domestically produced.

**Table 1. Self-sufficiency ratio of selected agricultural products, Philippines, 2015-2017 (%)**

	2015	2016	2017
Rice	88.9	95.0	93.4
Corn	91.4	90.0	94.3
Cassava	100.0	100.0	100.1
Sweet Potato	100.0	100.0	100.0
Beef	70.8	67.3	64.3
Pork	89.8	89.4	87.4
Chicken	87.3	84.7	97.0
Milkfish	100.8	100.8	100.6
Roundscad	99.9	96.6	98.6
Tilapia	100.0	100.0	99.9

Source: PSA Openstat (2019)

B. *While its role in the Philippine economy remains crucial, agriculture has been seriously underperforming.*

Based on its rate of output growth for the last four decades, Philippine agriculture has persistently underperformed compared to other developing economies (Table 2). This has not always been the case; in the 1960s and 1970s, the country posted very respectable growth in agriculture at about 4 percent per year, owing to technological change (e.g. the Green Revolution) and expansion of agribusiness investments in key export crops (e.g. sugarcane, bananas, pineapple).

However, growth fell sharply in the 1980s, recovering somewhat in the 1990s and 2000s, before receding again in the 2010s. Over the last four decades, Philippine

agriculture growth averaged a mere 1.9 percent. In contrast, during the same 40 years, China averaged 4.5 percent growth, while Indonesia and Vietnam averaged 3

percent; Sub-Saharan Africa and East Asia and the Pacific each grew at 3.9 percent, with Latin America and the Caribbean growing at only 2.8 percent.

**Table 2: Growth in agricultural GVA, 1997 – 2017, selected countries and regions (constant USD, 2010 prices)**

	1960s	1970s	1980s	1990s	2000s	2010s
China	5.6	2.1	6.3	3.7	4.1	4.0
Indonesia	2.7	3.5	3.5	2.1	3.5	3.9
India	2.5	1.8	3.5	2.8	3.0	4.2
<b>Philippines</b>	<b>4.3</b>	<b>4.1</b>	<b>1.2</b>	<b>2.1</b>	<b>2.9</b>	<b>1.4</b>
Thailand	5.6	4.0	3.9	2.3	2.2	0.8
Vietnam	-	-	2.7	4.3	3.5	2.5
EAP	4.9	2.7	5.2	3.2	3.8	3.6
LAC	1.9	3.4	2.2	2.4	3.1	3.3
SSA	-	-	2.7	3.1	5.6	4.1

Source: World Bank (2019)



Fisherman with caught tuna. • Source: World Wildlife Fund

Based on Gross Value Added (GVA), sub-sectors within agriculture that have grown faster than average are poultry and livestock; the former had done very well overall in 2013-18 (Table 3). Growth rate for crops is, however, below average; in half of the years shown, sector output actually contracted. Fisheries fare even worse, with output falling every year in the period 2014-18, hence declining 1.3 percent on average. For fisheries, the problem is a long history of unsustainable fishing that had depleted stocks, together with recent management measures (i.e. closed seasons for major fishing grounds and abusive practices of the PRC fleets). Meanwhile performance of crops over time is marked by high vulnerability to climate shocks and inability to sustain a strong rebound.

**Table 3. Growth in gross value added, selected sectors, 2013 – 2018 (2000 prices)**

	2013	2014	2015	2016	2017	2018	Average
Agriculture	1.2	2.1	0.6	-0.6	5.0	1.1	1.6
Crops	0.0	2.4	-1.8	-3.2	6.7	-1.0	0.5
Livestock	1.8	1.0	3.8	4.6	1.1	1.9	2.4
Poultry	4.3	0.3	5.8	1.4	4.6	5.8	3.7
Fisheries	1.2	-0.4	-1.5	-4.1	-1.7	-1.0	-1.3

Source: PSA Openstat (2019)

Among the crops, coconut has been on a decline while corn has been stagnant; sugarcane production has also been stable except for a sharp, temporary increase in 2017 (Table 4). Palay and banana have been increasing but are also erratic, both falling in 2016 and recovering afterwards.

The share of agriculture in overall GDP is down to 9 percent from 11 percent in 2013 in terms of value added (Figure 2); hence tepid growth in the sector makes little impact on

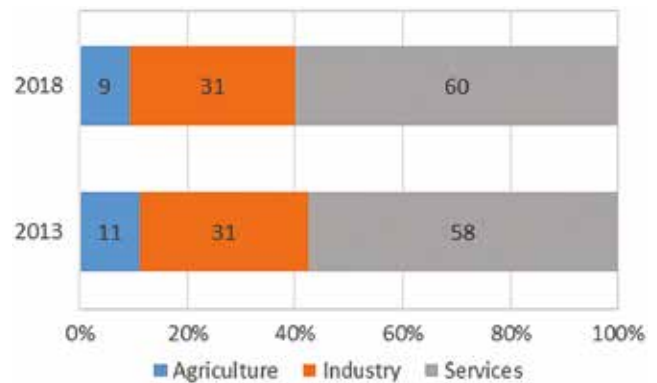
overall growth – though had it grown at 4 percent rather than 1 percent in 2018, the overall GDP growth rate would have been higher by 0.3 percentage points. The reason why rapid overall growth of the Philippines has not been sufficiently inclusive is the moribund state of agriculture. Neither has the sector been able to keep pace with the rest of the economy in terms of its ability to feed the population and provide materials to manufacturing.

**Table 4. Output of top five crops, 2013 – 2018 (millions of tons)**

	2013	2014	2015	2016	2017	2018
Sugarcane	24.6	25.0	22.9	22.4	29.3	24.7
Palay	18.4	19.0	18.1	17.6	19.3	19.1
Coconut	15.4	14.7	14.7	13.8	14.0	14.7
Banana	8.6	8.9	9.1	8.9	9.2	9.4
Corn	7.4	7.8	7.5	7.2	7.9	7.8

Source: PSA

**Figure 2. Shares in GDP by basic sector, 2013 and 2018 (%)**



Source: PSA



Farm workers using a combine harvester. Source: Yanmar Corporation

### III. ISSUES AND ANALYSIS

#### Key trends in agriculture

##### A. Rising agriculture area, declining workforce

FAO estimates of the Philippines' physical land area devoted to agriculture (temporary crops, permanent crops, and pastureland) is fixed at 12.44 million ha (Figure 3). There has been a minimal increase in overall area harvested, from 13.2 million in 2013, up to 13.4 million in 2017 – though the latter has been a rebound from a climate-induced contraction in 2016. Even as population in rural areas has continued to grow, available farmland has remained largely intact; hence, average farm size has fallen, measured at 1.3 ha in 2012, one full hectare smaller than in the previous decade.

**Figure 3. Area of Agricultural Land and area harvested, Philippines, 2003-2017 ('000 ha)**



Sources: Agricultural land – FAO Stat (2019); Area harvested – PSA Openstat (2019)

Aside from land, another key factor of production in agriculture is labor (Table 5). Since 2013, the total share of agriculture in employment has dropped precipitously, losing nearly six percentage points in just four years. Unlike in previous periods (pre-2010) when agriculture's employment

decline was relative to output, the current trend is a decline in absolute number of agricultural workers. Over the four-year period 2013-2017, agriculture shed 1.6 million workers (averaging 393,000 a year).

**Table 5. Trends in agricultural employment, 2013-2017**

	2013	2014	2015	2016	2017
Share of agricultural employment in total (%)	31.0	30.5	29.2	27.0	25.4
Number of workers ('000)	11,835	11,801	11,294	11,064	10,261
Real wages in Php per day (2012=100)	1748	178	189	191	251
Output per worker (Php, 2000 prices)	59,734	60,910	63,728	64,263	72,039

Source: PSA DEWS (2019)

The shift from agriculture to industry has been driven in part by differences in wages; average daily basic pay in industry was nearly double that of agriculture in 2013. However, this ratio had already prevailed since the 2000s, when agriculture continued to employ about a third of the work force. What is new from 2013 onwards is the expanded capacity of industry and services to absorb the labor moving out of agriculture.

##### B. Rapid growth in agricultural productivity and wages

Despite weak growth of agricultural output, output per agricultural worker has grown briskly, by 4.8 percent per year, owing to the aforementioned departure of workers from agriculture. Implicitly farm operators have been working on ever - shrinking farms and yet with fewer workers per hectares. Farm operators have therefore been



switching to less labor-intensive activities or have mechanized existing activities (e.g. harvesting).

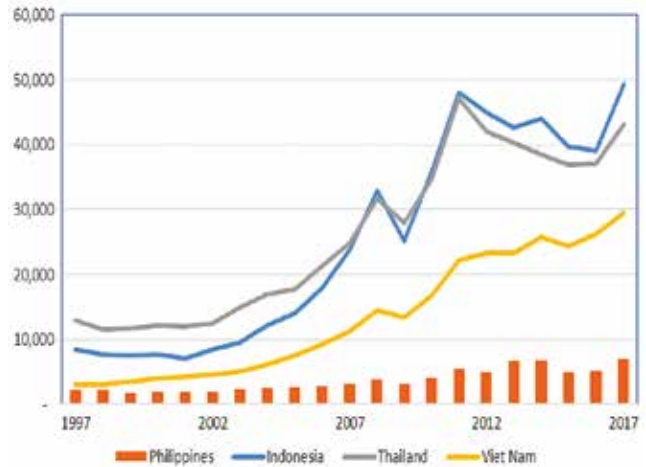
Agricultural wages have grown rapidly in real terms, at double the growth of output per worker. The movement of labor from agriculture to non-agricultural employment is both an effect of higher wages in the latter, and a cause of increased wages in the former as rural labor markets begin to tighten up. These trends all conform to a key stylized fact of economic development, that is, the change in economic structure as per capita GDP increases, manifesting primarily as the decline in the share of agriculture in output and employment.

### C. Weak export growth

One reason behind the relatively weak performance of agriculture as a whole is the sector's lack of competitiveness, signified by weak export performance. Benchmarking against Southeast Asian neighbors, agricultural exports of the Philippines have lagged far behind (Figure 4).

From 1997, Vietnam paired up with the Philippines as countries with a relatively low export base; even then Vietnam was at US\$ 3 billion, compared to Philippines US\$ 2.3 billion (Indonesia was at US\$ 8.5 billion, while Thailand was already at US\$ 13 billion). Despite this high base, Indonesia and Thailand were able to achieve much greater value over exports in two decades, both reaching the US\$ 40 – 50 billion range by 2017. Vietnam's export performance was also outstanding, approaching US\$ 30 billion the same year. By comparison export figures for the Philippines remain tepid at only US\$ 7 billion dollars.

**Figure 4. Value of agricultural exports, selected countries in Southeast Asia, 1997-2017 (US\$ millions)**



Source: WTO (2019)

The Philippines and Vietnam share some similarities (Table 6) in terms of agricultural land area (11 percent more for the Philippines, despite having a smaller overall land area), and population (10 percent more for the Philippines). Similarities end there, however: a much greater amount of rural land in Vietnam is fairly flat terrain and size of irrigated farmland is nearly four times greater. Vietnam applies much more fertilizer and uses much more farm equipment than does the Philippines. Its rural poverty incidence is much lower, even as a far greater share of its employment is in agriculture.



Carrot beds in Tinoc, Ifugao. • Source: NIA

Table 7 compares agricultural export trends in the Philippines and Vietnam by major product. Top exports of Vietnam are fish (with a large land area suitable for aquaculture), rice (similarly a large land endowment suitable for rice growing),

together with coffee, pepper, and tea, as well as nuts and fruits. For the Philippines the top exports are coconut oil, fruits and fruit preparations, followed by seafood, seafood preparations, and cultured seaweeds.

**Table 6. Comparison: Philippines and Vietnam**

Item (1)	Philippines (2)	Vietnam (3)	Ratio (2)/(3)
Land area (million (M) hectares)	29.8	33.1	0.9
Population (M, 2017 est)	104.9	95.5	1.1
Agricultural area (M ha)	12.1	10.9	1.11
Employment in agriculture (%)	29.6	43.6	0.68
Fertilizer/ arable land (kg/ha)	139.0	397.0	0.35
Tractors per 100 sq km arable land	117.0	262.0	0.45
Rural land below 5 meters (M ha)	0.7	4.8	0.15
Irrigated land (M ha)	1.2	4.6	0.26
Rural Poverty, % of population	30.0 (a)	13.6 (b)	2.21
Total Poverty, % of population	21.6 (a)	9.8	(b) 2.20

(a) Philippine Statistics Authority (PSA) estimate in 2015. (b) Asian Development Bank (ADB) estimate was 7 percent in 2015. World Bank - GSO Estimate in 2016 was 9.8 percent poverty incidence at national level and 13.6 for rural. Source: World Bank, circa 2010 for others

**Table 7. Top exports, Philippines and Vietnam, 2001 and 2016 (in US \$ million)**

		2001 (1)	2016 (2)	Multiple: (2)/(1)
Philippines	Total	1,878	4,959	2.64
	Coconut oil	420	1,181	2.81
	Fruits	432	1,128	2.61
	Fruit preparation	214	629	2.94
	Seafoods	287	448	1.56
	Seafood preparation	87	277	3.18
	Carrageenan/seaweeds	40	192	4.8
	All Others	408	1,104	2.71
Vietnam	Total	4,421	24,546	5.55
	Fish and seafood	1,736	5,184	2.99
	Coffee, pepper and tea	584	4,829	8.26
	Nuts and fruits	386	4,611	11.96
	Rice	628	2,181	3.47
	Fish preparation	68	1,855	27.28
	Natural rubber	166	882	5.31
	Tapioca and starch	34	815	23.97
	Cereal preparation	98	626	6.39
	Residues and fishmeal	5	586	117.2
	Misc edible preparation	47	521	11.09
	Fruits and Vegetables	89	501	5.63
	All Others	580	1,955	3.37

Source: UN trademap, UA&P analytics

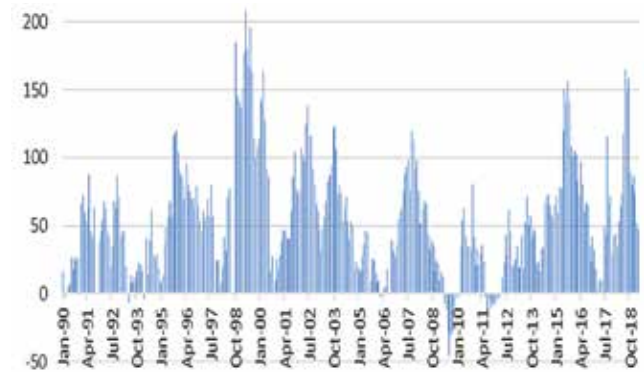
*D. High cost source of food and raw materials for consumers and industry*

Agriculture is the main source of food for the country's population; it also supplies raw material for the food and beverage sub-sector, the largest sub-group under manufacturing. However, both households and agriculture - dependent industries face high costs of sourcing domestically. Protection remains widespread throughout the sector: sensitive products aside from rice include corn, cassava, coffee, sugar, vegetables, and meat. Balisacan et al (2011) demonstrate that high cost of agriculture mainly impacts the rest of the economy by raising labor cost, i.e. wage demands are stronger when food prices (especially rice) are rising. This in turn erodes the competitiveness of Philippine labor.

Sugar is a key ingredient for many food and beverage products; however, policies on sugar continue to drive up domestic prices relative to world prices. Figure 5 shows the estimated nominal protection rate (NPR), equal to the difference between domestic and border price, expressed as a percentage of the latter. Both world and domestic prices move erratically, hence NPR varies tremendously from month-to-month, occasionally dipping into negative territory; however, on average for the whole period, NPR is high and positive at 54

percent. In fact, in the recent period (2013-2019) the average monthly NPR is much higher, at 66 percent – which is consistent with the statutory MFN out-quota tariff (65 percent).

**Figure 5. Nominal protection rate for sugar, monthly prices, 1990 - 2018**



Note: landed cost estimated as 15 percent over FOB price.  
Sources: PSA Openstat (2019) for domestic price; World Bank (2019b) for world price of sugar, FOB.

*E. Large public expenditure outlays but poor results*

Total obligations for agriculture in 2018 was Php 143 billion, which is about 8.9 percent of GVA of the sector, up from 7.4 percent in 2017 (Table 8). Perhaps no other sector can muster this much support from the government budget. Within agriculture, the outlay is largest for the Department of Agriculture (DA), with a budget of about Php 56 billion. The next largest is for the National Irrigation Administration (NIA) at



Philippine high-value crops. From L-R: cavendish bananas, yellow corn, carabao mangoes, and pineapples.

Php 42 billion. However, despite years of high and rising budgets for agriculture, government programs have too little to show for in terms of sustained growth and transformation.

**Table 6. Government outlays for agriculture, 2017 – 2019 (Php ‘000)**

	Obligation-based		Cash-based
	2017	2018 (Program)	2019 (Proposed)
Agriculture and Agrarian Reform	112,419,844	142,739,811	137,138,053
Department/ Agencies	60,068,729	66,880,676	59,337,437
Department of Agriculture	48,223,846	55,671,450	49,804,715
Support to Government Corporations	52,351,115	63,886,717	68,570,953
National Irrigation Administration	39,976,605	41,669,162	36,897,729
Other Special Purpose Funds	-	11,972,418	9,229,663

Source: DBM BESF (2019)

## IV. KEY RECOMMENDATIONS

### A. Market access

1. *Expand access to markets both domestically and abroad by implementing Ease of Doing Business, pursuing reforms in the protection and incentive regime, and capitalizing on existing market access arrangements.*

New FTAs and other preferential trade privileges provide unprecedented market access. To take advantage of new market opportunities, measures are needed to improve market information, technology transfer, marketing, export promotion, and to broaden trade facilitation. Priority should be given to high value export winner crops, such as banana, mango, pineapple, and coconut products.



A National Food Authority worker makes an inventory of rice stocks at a government rice warehouse in Taguig City. • Source: VOA news

The Ease of Doing Business and Efficient Government Service Delivery Act (RA 11032) promises to dramatically reduce barriers to entry and participation, especially among MSMEs. The law provides a maximum of 20 days from application to approval of even the most complex permits (assuming all paperwork is in order). This will be an enormous boon for many small food enterprises, who have lamented the slow pace approval of product registration with Department of Health - Food and Drug Administration (DOH-FDA) – a process that can often take years.

On the agriculture side, RA 11032 can have the effect of a more efficient licensing and registration system among the various regulatory agencies of the Department of Agriculture, such as the Bureau of Animal Industries, the Bureau of Plant Industries, and the National Meat Inspection Service. A more efficient regulatory system for licensing and registration of businesses and products across the entire agricultural supply chain could lower transaction costs and turnaround time for companies involved in the same, including those companies involved in biotechnology or the introduction of new agriculture inputs in upstream industries (e.g. seeds cultivation

and trading, animal feeds production). To this end, regulatory regimes may consider adopting mutual recognition programs where products and technologies approved in other more-developed regulatory regimes undergo a speedier and less stringent regulatory approval process in the country, allowing for better compliance with the objectives of RA 11032.

While the provisions of the RA 11032 are favorable to business and levelling the playing field, there was a long delay in the presidential appointment of the new Director General who was required to approve the draft official implementing rules and regulations (IRR) Government agencies may resist the mandated timelines. Hence the **urgent need to compel compliance and create a culture of efficient service delivery in government**. Currently there is a Memorandum of Agreement between the Department of Trade and Industry – Board of Investments and DOH-FDA towards implementation of RA 11032.

A key reform has been the rice liberalization law (RA 11203). It was enacted partly to align the country's domestic policy with its World Trade Organization obligation to convert non-tariff barriers into tariffs. Even as it widens market access to foreign rice suppliers, it works to reduce domestic rice prices, bringing these down to the level of world prices. More affordable rice directly benefits the poor, and indirectly reduces wage pressures and enhance the competitiveness of Philippine industries.

There is unfortunately a **persistent protectionist regime covering rice, corn, sugar, cassava, coffee, vegetables, and meats, which should be dismantled**. Tariffs should be reduced and remaining quantitative restrictions (such as in sugar

importation) repealed, as was done in the case of rice. This will further reduce cost of food for households and enhance the competitiveness of our beverage and food manufacturing industries. In the case of sugar, a policy dialogue has already begun around the prospect of liberalizing the sugar industry. Though it is clear many political and business interests are not keen on such a proposal, it is important that such policies be debated and pushed for the larger benefit of the consuming public and industries dependent on sugar.

Another potential area for immediate **liberalization is in the area of investment in the rice and corn sectors**. A vestige of 1970s nationalistic/protectionist thinking, PD 194 or the Rice and Corn Law sets foreign investment restrictions for companies involved in the rice and corn sectors. The mere use of rice or corn in production processes places a foreign company under a maximum 30-year period after which it must divest majority interest (60%) of its equity to a local person or entity. Currently, these restrictions are in the Foreign Investment Negative List. In keeping with the spirit of the current Administration to liberalize certain economic sectors for more foreign participation – as embodied



*Dried mango facility. • Source: DTI*

in MO 16 s. 2017, the repeal of this law is one win the current Administration can move on and claim.

There is also an effort to overhaul the incentive regime under a bill referred to as **CITIRA (Corporate Income Tax and Incentives Rationalization Act)**. The proposed Act provides a gradual reduction of the corporate income tax down to 20 percent (the ASEAN norm), and reforms the fiscal incentive scheme; additional incentives are offered to agribusiness firms located outside urban areas (DOF, 2019). While concerns about changing incentives in mid-stream have been raised, these may be addressed by incorporating grandfather-type provisions, allowing investments made under past schemes to retain incentives over a reasonable time frame. These two issues were unresolved in mid-2019.

Lastly, the **Sagip Saka Act (RA 11321)** establishes the agricultural value chain and private-public-producer partnerships (PPPPs) as legislated policy. Some of the provisions of this bill are: creation of the Farmers and Fisherfolk Enterprise Development Program; incorporation of partnerships with private investors into the Program; a governance system based on the Farmers and Fisherfolk Enterprise Development Council at the national level, with local level counterparts established through the existing local Agriculture and Fisheries Council; and negotiated procurement with producer organizations (rather than competitive bidding) as a modality for purchasing food for government programs.

2. *Improve logistics and other services through policy reforms such as amendment of the Public Services Law (Commonwealth Act 146).*

The World Bank (2019) ranks the Philippines at 60th out of 160 countries in logistical services, based on the Logistics Performance Index. Agriculture has borne the brunt of logistical inefficiencies. Cost reductions from infrastructure investments are important and discussed below. Also key are policy reforms such as **limited expanded amendment of the cabotage law, removal of fees and taxes, and classification of ChaRO as part of regular RORO service**. The government needs to prioritize efforts to **reduce port handling costs**, which remain disproportionately higher than for other countries in the region. The principle of separating combined function of regulator and operator of ports under the Philippine Ports Authority must be separated, as provided for by the GOCC (Government-owned and controlled corporations) Governance Act of 2011. The **draft PhilPorts Act provides for such a separation of functions** between Marina as the regulator and a new PhilPorts agency for operations.

Another legislative proposal gaining traction is the **amendment of the Public Service Law**. The amendments will narrowly limit the definition of public utilities (in which foreign equity is capped at 40 percent) and distinguish these from public services for which the nationality restriction need not apply. The amendment is expected to increase the number of players in key public services such as shipping and other transportation services as well as telecommunication services while also bringing modern technologies and systems. Along with the **Open Access in Data Transmission Act**, these reform measures can greatly benefit agriculture by improving the quality while reducing the cost of telecommunciations for the food and

agriculture sectors to support their shift to Industry 4.0.

3. ***Implement provisions of the Agricultural Fisheries Modernization Act on public sector R&D for agriculture, and encourage private sector innovation.***

The Agriculture and Fisheries Modernization Act (RA 8435) provides for a minimum government budget for R&D equivalent to at least one percent of GVA of Agriculture, Fisheries, and Forestry by 2001. However, the legal principle it embodies is to allocate a budget of one percent of GVA of Agriculture, Fisheries, and Forestry (of the previous year) for public agricultural R&D system for this year. Admittedly, this covers an array of institutions in DA, DOST, and SUCs, which makes public R&D expenditure somewhat difficult (but not impossible) to monitor. Much agricultural R&D is done by the private sector. Government should also provide an enabling environment for private research. Stakeholders at the Roundtable requested stabilization of the regulatory

regime over sensitive technologies such as recombinant DNA, gene editing, etc., preferably by law.

4. ***Overhaul the agricultural extension system with the province as the focal point of governance and extension workers equipped with modern communication technologies.***

The current structure in which extension has been devolved to municipal governments under the Local Government Code has led to a weak and fragmented system. The DA will need to play a more strategic role in the sector, focusing on industry roadmaps, guiding and coordinating extension units, linking with the R&D system, and incorporating private sector partners in extension service delivery.

**The Local Government Code should be amended to assign extension services as the function of the provincial government. An executive order can be issued** pending enactment of amendments. This maintains the principle of decentralization, but





An example of an internet-based tool that facilitate machinery usage scheduling. • Source: IRRI

achieves economies of scale and scope in technology dissemination. Lastly, overhaul of the extension system also involves **empowering extension workers to use modern technologies**; for example, the Rice Crop Manager is an online system that provides customized advice to rice farmers on application of fertilizers, pesticides, and irrigation. These and similar technologies should be adopted and mainstreamed in the toolkit of the average extension worker.

## B. Access to finance

### 5. Formulate and implement an inclusive finance strategy for the smallholders and small fisherfolk.

In 2016 the country began to implement a National Strategy for Financial Inclusion (NSIF) with Bangko Sentral ng Pilipinas (BSP) as the lead agency. It is now evaluating measures to facilitate access to credit for underserved sectors. DA is included as a stakeholder to reach out to smallholders and fisherfolk, while DTI is a stakeholder for MSMEs. The generous subsidies towards agricultural insurance, combined with value chain projects with significant financial elements (e.g. matching grants of PRDP and ConVERGE), should lead to

the formulation of a component of NSIF focused on finance of the agriculture value chain drawing in PCIC, LBP, other private banks, lending institutions, as well as institutional investors. **Land Bank of the Philippines (LBP) must be refocused**, from its universal banking functions, back to its core mandate of lending to smallholders and fisherfolk.

Moreover, inclusive finance for agriculture involves an **expanded coverage of agricultural insurance** for smallholders and fisherfolk. In fact, by 2016 there were 1 million farmers given benefits under the various crop insurance programs, with premium subsidy of Php 2.4 billion; assuming 5.6 million farmers (the 2012 Census finding), this implies a penetration rate of 18 percent. By 2018, premium subsidy had reached Php 3 billion, reaching 1.7 million farmers, implying insurance penetration of about 30 percent. Nonetheless, the expanded penetration should be raised even further, and sustained.

An important agriculture sub-sector remains to be the coconut industry, being one of only three billion-dollar agriculture export sectors. In this regard, the passage of the **Coco Levy Fund Bill** should help in diverting the much-needed finance currently standing idle to support the leapfrogging of the industry to contribute more towards some of our poorest farmers – the coconut farmer. A properly crafted and implemented bill in this regard, one that is geared to support coconut farmers (social justice) while developing the various downstream coconut industries (economic development), could energize the vast potential of our local coconut sector. Financial capital under this Fund should be managed in a sustainable way



to benefit future generations of coconut farmers, thus it may be worth considering keeping the Fund's principal in place and just utilizing the Fund's interest to finance the various program of the coconut sector.

6. *Support for agricultural finance should move away from mandatory allocations towards incentivisation of value chain finance.*

Currently, private sector finance for agriculture is being enforced by mandatory sector allocation under the **Agri-Agra Law (RA 10000)**. Policy should move away from mandates, towards a more incentives-based scheme, such as tax credits for banks willing to finance agricultural value chains. Note that this recommendation covers more than just farming, but also activities directly using agricultural outputs (e.g. processing) or provides inputs or services to agriculture (e.g. production of organic fertilizers). **Amending RA10000 is a priority of business chambers for the 18th Congress.**



*A farm-to-market road project in Santiago, Agusan Del Norte.  
Source: dar.gov.ph*

### **C. Freeing up the land market**

7. *Promote individual fee simple rights by subdivision of collective certificate of land ownership award (CLOA) and lifting transfer and ownership restrictions.*

Since 2016 there have been significant developments in freeing up the land market. The Agricultural Patents Law (RA 11231) removes restrictions in the registration, acquisition, encumbrance, alienation, transfer, and conveyance of public alienable land covered by free patents. The free patent will now be treated as fee simple title. A few government projects are aimed at organizing farmers into enterprise to promote diversified and value adding activities in the countryside. For Agrarian Reform Beneficiaries, the Department of Agrarian Reform (DAR) has been engaged in the ConVERGE Project (Convergence towards Value Chain Enhancement for Rural Growth and Empowerment) with financial support of International Fund for Agricultural Development. The DA meanwhile has been undertaking a massive value chain initiative under the Philippine Rural Development Program financed by World Bank.

The Comprehensive Agrarian Reform Program (CARP) conveyed a large amount of acquired land in the form of group or collective CLOA, equivalent to 2.168 million ha as of 2016. RA 9700 (CARP Extension with Reforms, or **CARPER**) **mandates the subdivision of collective CLOAs into individual parcels.** However, there remains a large balance of collective CLOAs that have yet to be subdivided (28 percent as 2018). Reasons for the remaining balance include: listed owners who are no longer cultivating land, e.g. they have moved out of the area, or are deceased; and cultivators who are not part of the original list, but have occupied the awarded land by financing arrangements (*e.g. sangla or arriendo*). DAR Administrative Order No. 02, Series of 2019, already provides for accelerated parcellization, **government needs to follow through with swift**

**implementation.** The Agricultural Patents Law offers a model for how to properly treat the land award under CARP. **The individual CLOA should be treated as fee simple** (albeit with the sole exception of the encumbrance with Land Bank Philippines until the mortgage is fully paid).

8. ***Shift towards more consolidated farmland operations by lifting ownership ceilings on agricultural land.***

The current ownership ceiling of 5 ha leads to fragmentation of farm operations. Government has been pursuing a number of initiatives towards farmland consolidation. The DA-SRA has been organizing “block farms” in sugarcane areas, involving organizations of ARBs to be able to consolidate landholdings into integrated units for accessing finance, applying new technology, engaging in land preparation, irrigation, purchases of inputs, farm road maintenance, and hauling of cane to the mill (Pantoja, Alvarez, and Sanchez, 2019). The block farm has now been institutionalized as a voluntary program with permanent government support under the Sugar Industry Development Act (RA 10659). Block farming, and corporative organization of farmlands, and economies of scale, can be greatly facilitated by raising retention limits up to say 25 ha (the apparent upper limit of what is politically feasible). **HB 4945 to allow limited land consolidation up to 12 ha has been introduced** in the House in the 18th Congress by Rep. Joey Salceda.

**D. Infrastructure investment**

9. ***Expand private sector investments in private infrastructure goods such as postharvest facilities, cold storage, food terminals.***

Priority areas for rural infrastructure include: farm-to-market roads, post-harvest processing facilities, irrigation, SPS inspection facilities, food terminals, cold storage, and food processing factories. The lack of post-harvest facilities cries out for more private sector investment, as part of efforts to manage overall supply chains. However, considerable funding of DA goes into types of infrastructure that can be treated as private goods, i.e. postharvest facilities, cold storage, and the like. For example, half of the Php 10 billion-plus Rice Competitiveness Enhancement Fund is allocated to in-kind grants of rice farming machinery. However, government is far from being the most competent entity for efficient procurement and distribution of private goods. Rather, farmer organisations and agribusiness enterprises are better off procuring these goods themselves; at best government can support acquisition through finance (see Recommendation 6 above). **Enhancements to the BOT Act as proposed in the PPP bill could facilitate more private sector investment in rural infrastructure.**

10. ***Concentrate public investments on public goods and quality services, applying strict criteria on EIRR for infrastructure projects.***

More basic types of infrastructure will likely be underprovided in the absence of public investment, e.g. **farm-to-market roads, bridges, and irrigation systems.** In particular, farm-to-market roads provide much needed linkages, but only 3.5% of barangay roads are paved. Likewise, mandatory regulations such as e.g. Sanitary and Phytosanitary Standards (SPS) require equipment for timely delivery of scientific testing and measurement.

These, together with R&D and extension, are the proper realm of government investment; savings from private goods subsidies and grants can be diverted towards plugging the gap in basic rural infrastructure. Further savings can be obtained by strict adherence to the Economic Internal Rate of Return (EIRR) threshold of NEDA (currently at 12 percent). Feasibility studies should not be treated as a project pro forma, but as a necessary discipline for weeding out projects whose ex ante social returns fall short of social investments.

As a side note, the Free Irrigation Act is a prime example of a policy which promotes the right sort of infrastructure in a manner that may be counter-productive to the country's actual needs. Though noble in its objective of helping boost farmer productivity, the ill-effect is the potential wastage of water as most things free tend to be over-used. Given the country's current water issues, such a policy must be supported by a regime that ensures that the EIRR of such a policy will induce the right sort of productivity gains envisioned.

Since 2016, government has been undertaking catch-up program for infrastructure led by numerous flagship projects under the theme "Build-Build-Build" (BBB). Currently (as of April 2019), 37 projects have been approved, with another 29 for approval of the National Economic Development Authority (NEDA)

Board (chaired by the President). Some of these projects are irrigation projects; others involve road building that passes through rural municipalities and barangays; and others will have indirect benefits for rural development, such as island linking bridges. Urgently, bottlenecks to accelerated expansion of infrastructure investment must be overcome, e.g. low budget utilization, cumbersome procurement processes, institutional obstacles in procuring right-of-way, etc.

## V. CONCLUSION

The new Secretary of DA, William Dar, has unveiled eight paradigms for leveling up agriculture (Box 1). As broad statements of policy, the paradigms are stated in very general terms. What the eight paradigms need are more specifics, provided in part through the ten key recommendations made in this brief. The ten recommendations reinforce the themes of modernization, value addition, export orientation, economies of scale, and infrastructure catch-up, which feature prominently in the eight paradigms. **A coalition for action, led by government, and mobilizing agripreneurs, investors, farmer groups, and other stakeholders, should be formed around these paradigms and strategies.** Only then can agriculture be transformed into a vibrant agri-food system, responsive to the needs of consumers, while delivering rapid improvement in living standards of farmers and agricultural workers.

### Box 1. Eight Paradigms For Leveling Up Agriculture

**Modernization must continue** - Modernization and the use of modern technology must also cover all crops, including those with export potential in processed or value-added form like coffee, cacao, cassava, tropical fruits, rubber, among others.

**Industrialization is the key** - Agriculture must be treated as an industry, with the objective of industrializing the value chain of every agricultural commodity.

**Promotion of exports is a necessity** - The country should have a systematic and long-term strategy in developing and promoting exports of raw and processed agricultural products.

**Consolidation of small- and medium-size farms** - The government must promote and support farm consolidation arrangements to bring about economies of scale, particularly for crops that require mechanization and massive use of technology.

**Infrastructure investment should also be critical** - Agricultural areas need infrastructure development and logistics to improve their linkages to the urban/domestic and export markets. Thus, a “Build, Build, Build” program is also a must for agriculture.

**Higher budget and investment for agriculture** - The government and the private sector with the strong and popular support from the citizenry, must provide the necessary budget and investment to grow and develop Philippine agriculture.

**Legislative support is needed** - The country’s agriculture sector needs the help of both the Senate and the House of Representatives, for policy and structural reforms that need to be legislated and institutionalized.

**Roadmap development is paramount** - The government, through the Department of Agriculture, should take the lead in generating the “big ideas” for the roadmap, and should solicit inputs from the private sector and other stakeholders.

Source: Department of Agriculture

Republic of the Philippines  
**DEPARTMENT OF AGRICULTURE**  
 Elliptical Road, Diliman, Quezon City, Philippines

*"A food-secure Philippines with prosperous Farmers and Fisherfolk"*

**8 Paradigms to level up AGRICULTURE**  
 THE NEW THINKING FOR AGRICULTURE

*Tulongan natin ang ating mga magsasaka at mangingisda upang makamit nila ang masaganang ANI at mataas na KITA.*

**WILLIAM "MANONG WILLIE" DAR**  
 KALIHIM, KAGAWARAN NG AGRIKULTURA

Modernization must continue.

Roadmap development is paramount.

Industrialization of Agriculture is the key.

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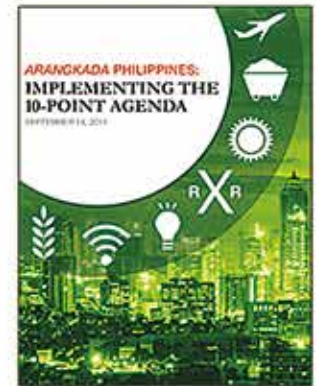
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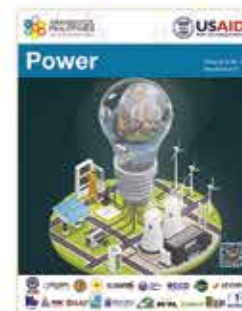
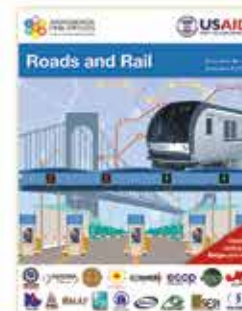
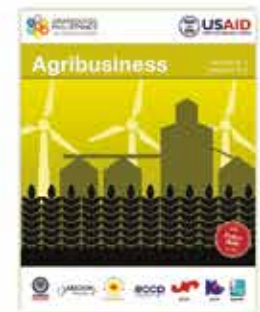


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