

Rural Growth and Development Revisited

POLICY ISSUES

by

Ching dela Peña

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LIST OF ACRONYMS

ADB	Asian Development Bank
AFIS	Agriculture and Fisheries Information Service
AFMA	Agriculture and Fisheries Modernization Act
AFMIS	Agriculture and Fisheries Market Information System
AMAS	Agriculture Marketing Assistance Service
AO	Administrative Order
ASEAN	Association of South East Asian Nations
ATI	Agriculture Training Institute
BAI	Bureau of Animal Industry
BAR	Bureau of Agriculture Research
BFAD	Bureau of Food and Drugs
BFAR	Bureau of Fisheries and Aquatic Resources
BPI	Bureau of Plant Industry
BPS	Bureau of Product Standards
BSP	Bangko Sentral ng Pilipinas
CAC	CODEX Alimentarius Commission
CARP	Comprehensive Agrarian Reform Program
CDA	Cooperative Development Authority
DA	Department of Agriculture
DBM	Department of Budget Management
DENR	Department of Environment and Natural Resources
DFIMDP	Diversified Farm Income and Market Development Project
DILG	Department of Interior and Local Government
DOH	Department of Health
DSL	Direct Satellite Link
DSWD	Department of Social Welfare and Development
DTI	Department of Trade and Industry
DUS	Distinctness, Uniformity and Stability
FAPS	Foreign Assisted Projects
FDC	Food Development Center
FIDA	Fiber Industry Development Administration
GM	Genetically Modified
GMA	Ginintuang Masaganang Ani
HVCC	High Value Commercial Crops
ICT	Information and Communications Technology
IFMA	Industrial Forest Management Agreement
IPR	Intellectual Property Rights
IRA	Internal Revenue Allotment
IRR	Implementing Rules and Regulations
LBP	Land Bank of the Philippines
LGC	Local Government Code
LGU	Local Government Unit
MAV	Minimum Access Volume

MO	Memorandum Order
MOU	Memorandum of Understanding
MTPDP	Medium Term Philippine Development Plan
NAFC	National Agriculture and Fisheries Council
NCC	National Credit Council
NFA	National Food Authority
NG	National Government
NIA	National Irrigation Administration
NIN	National Information Network
NMIC	National Meat Inspection Commission
OIE	World Organization for Animal Health
OP	Office of the President
PCA	Philippine Coconut Authority
PVP	Plant Variety Protection
QR	Quantitative Restrictions
RA	Republic Act
R&D	Research and Development
SAFDZ	Strategic Agricultural and Fisheries Development Zone
SMS	Short Message Service
SO	Special Order
SONA	State of the Nation Address
SPS	Sanitary and Phytosanitary
SPSIS	Sanitary and Phytosanitary Information System
SRA	Sugar Regulatory Administration
WB	World Bank
WTO	World Trade Organization

MAIN REPORT

Objectives and Scope

1. The goal of this exercise is to recommend a roadmap for institutionalizing strategies that support the following objectives:
 - growth in agriculture/agribusiness productivity;
 - greater diversification in the sectors;
 - increased agriculture competitiveness, more exports, more efficient import substitution; and
 - more employment

2. This particular paper will focus on the agriculture-specific policy and regulatory elements that have bearing on achieving the above goals.

3. It must be stated at the outset that the program to address the growth objectives should consider the following constraints for said program to be effective and implementable:
 - Government's fiscal position is severely constrained.
 - Agriculture players are numerous, scattered and poorly or rarely organized – most are small, producing one product, and selling in the local market; a few are big agribusiness concerns, vertically integrated, and diversified, product- and market-wise.
 - Rural communities are diverse with respect to resource endowments, distance to markets, and other factors that affect agricultural productivity and competitiveness.
 - The agriculture bureaucracy is big and currently fragmented, organized largely along commodity lines, and some restructuring is imperative and hopefully forthcoming
 - The Local Government Units (LGUs), given the responsibility for agriculture extension and support services by the Local Government Code (LGC) of 1991, are mostly ill-equipped -- institutionally, financially and technically -- to seriously provide these services.

4. With the above constraints and following expressed general policies, the strategic thrusts of national government (NG) intervention in the sector should be as follows:
 - Creating a hospitable environment for the private sector and rural communities to pursue market-driven increases in productivity and diversification, including:
 - o Promoting policy stability and consistency
 - o Adopting sector-neutral incentive and protection systems
 - o Institutionalizing firm-neutral and streamlined regulatory systems

- Ensuring well-defined and secure property rights (including Intellectual Property Rights)
 - Generating, and enhancing access to, critical knowledge and information
 - Facilitating private joint undertaking, contracting, and economic organization
- Capacitating LGUs to lead in planning and implementing catalytic development projects that support productivity growth.
- Institutionalizing the technical support roles of the NAs
 - Enhancing LGU's access to resources and knowledge
 - Promoting networking, coordination, and convergence of initiatives among LGUs and National Agencies (NAs)
6. The following sections will review the state of important protection policies, trade regulations and mandated agriculture services implemented by the DA and its attached agencies with a view to identifying areas that conflict with or do not support the above strategic thrusts.

Review of Policies and Regulations

Protection

7. Substantial trade policy reforms, to correct price distortions and increase the efficiency and competitiveness of Philippine industries, had been undertaken since 1985. Average tariff rates have been significantly and progressively reduced; almost all import quantitative restrictions (QRs) on agriculture have been abolished or converted to tariffs; export taxes were eliminated; and trading monopolies and monopsonies were dismantled. But some sectors continue to be subject to huge price distortions due to remaining government interventions and high levels of trade protection.
8. Rice. Rice is a sector where huge price distortions persist, as shown in the following table, because of pervasive government participation in the market. Given the importance of rice in the Philippines as a major cereal and major crop of small farmers, the National Food Authority (NFA) was created as a government corporation with the mandate to stabilize rice supplies and maintain prices at levels profitable to producers and affordable to consumers. The NFA directly participates in the market by maintaining a network of warehouses, controlling imports under a QR regime, trading using a “buy high – sell low” approach, and maintaining rice buffer and emergency reserves.

**RICE PRICES
P/MT**

	Calendar Year		
	04	03	02
Domestic Wholesale			
RMR	17,280.00	16,510.00	16,530.00
WMR	19,110.00	18,300.00	18,210.00
World*			
25% brokens	13,207.01	9,929.85	9,136.95
15% brokens	13,733.50	10,418.21	9,498.30
Dom/World			
RMR/25% broken	1.31	1.66	1.81
WMR/15% broken	1.39	1.76	1.92

* Thailand FOB

Sources of basic data: BAS and NFA

9. Rice was exempted from the commitment to tariffy all agriculture import QRs under the WTO accord of 1995. The exemption, granted for 10 years, expired as of end of 2004. As of this date, the country is still negotiating with WTO partners on an extension of said exemption.

10. The NFA buys palay at a support price during the peak harvest seasons to influence the level of farmgate prices. But its palay buying participation has been low and ranged from 1.3 % to 2.2 % of total palay production in the last 3 years. The NFA also releases rice into the market through selected retail outlets, which sell these at NFA-specified prices, i.e. P1.00 per kilo higher than the NFA release price, or substantially lower than prevailing in the market. Imports boost NFA participation in the rice consumer market to a share ranging from 11% to 12%. The following table shows the NFA's support and release prices relative to market.

**NFA Support and Release Prices
(P/kg)**

	Calendar Year		
	04	03	02
Palay Farmgate	9.7	8.84	8.82
NFA Support Price	9 - 10	9	9
Rice Wholesale	19.11	18.3	18.21
NFA Release Price	15	15	15

Source: NFA

11. The yearly import QR is largely determined using the estimated gap between domestic supply and demand for rice, with supply based on domestic production and beginning stocks and demand based on a daily requirement of 27 thousand MT. The President approves the import volume based on recommendations of the

- Department of Agriculture (DA) Secretary using analysis done by an interagency technical committee on the rice situation. The technical committee, using estimated production from Jan to July and year-end stocks, makes the recommendation by February so that the imports will arrive within June and August.
12. The NFA undertakes the importation of the big part of the rice import QR and usually gets to do this duty free. Beginning in 2003, the NFA allowed qualified palay farmer groups to import minimal volumes provided the 50% tariff is paid. This was in accord with the President's pronouncement in the 2003 State of the Nation Address SONA that the NFA monopoly on rice imports shall be waived and farmers groups shall be allowed to import subject to the QR and tariffs. But because of increasing international grains prices as well as lack of financial resources and experience in importing, farmers groups were not able to bring in most of their import allocations.
 13. Outside of the import volume recommended by the DA Secretary based on the interagency recommendation, the NFA has been known to request Presidential clearance for additional imports, on the basis of its year round rice stock monitoring. The NFA maintains two types of reserves: an operational reserve good for at least 30 days national requirements on July 1, the beginning of the rice lean season, and an emergency reserve good for 15 days all the time. The operational reserve ensures that the NFA holds a third of requirements from July to September, rice lean months when there is greater pressure for prices to increase.
 14. The NFA also regulates rice trading by way of licensing grains businessmen and implementing standards in grains milling, handling and packaging. It implements projects to support rice production and marketing improvements such as encouraging the organization of farmers, providing post-harvest facilities such as warehouses, and implementing input (seed and fertilizer) subsidy schemes, etc. The NFA likewise regulates and participates in corn trading, but this has been greatly reduced in the past decade. Intermittently, the NFA has also been directed to support sugar prices by buying excess stock and manage rolling stores that bring low-priced consumer goods including rice, sugar and fish to depressed areas.
 15. The NFA, as a corporation, hardly receives budgetary support from the government – typically less than P1 billion a year. What it has is government credit guarantee. As of 2004, NFA's credit level was reportedly at about P24 billion, most of it from commercial sources. It also reportedly sustained about P13 billion in operational losses that year.
 16. The NFA's rice release operation is viewed as a program to help the poor. Practically all rice releases by the NFA are priced at the set release prices except for some stocks, which have deteriorated in storage and are thus sold at market

- prices through auction. Anyone can buy NFA rice but NFA maintains that its partner retail outlets are mostly situated in areas where there are many poor households. A survey supported by the WB indicates that although some non-poor households also buy NFA rice, a greater proportion of poor households do. The survey also showed that NFA rice buyers feel that its quality is poor. This could support reports that rice retailers substitute good quality NFA stocks with poor quality stocks and pass off the better stocks to consumers at higher prices. While these reports are unverified, certainly there is incentive in the pricing system to resort to this.
17. The impact of the above policies on rice have been:
- High rice prices for consumers and upward pressures on wages (Roumasset, AGILE, Tolentino, David)
 - High subsidies on consumers, with the non-poor getting a bigger share than the poor. While more poor households buy NFA rice, the non-poor buy more rice and thus get a bigger share of the benefits (WB). If retailers indeed substitute good NFA rice with poor quality rice, a big part of the subsidy also goes to rice retailers.
 - Low farmgate prices for farmers because traders use the NFA rice release price as the trigger instead of the NFA palay support prices (Roumasset).
 - Financial problems for the NFA due to huge subsidy and operation costs compounded by the absence of corresponding budgetary support (AGILE)
18. Consequently, the following had been previously recommended.
- Better targeting of NFA's rice release operations to the poor
 - Separation of the NFA's developmental and proprietary functions
 - Opening of rice importation to the private sector
 - Cap on support prices
 - Tariffication of the rice QR
19. In particular, the separation of NFA's developmental and trading functions, the tariffication of the QR and the cap on support price increases were part of policy commitments made by the Philippines in exchange for a loan to develop the grains sector (GSDP). The availment of this loan was discontinued as the Government found it difficult to implement the policy reforms. Apparently, the government deemed the current policy instruments useful for its rice self-sufficiency and pro-poor agenda.
20. Sugar. Sugar currently holds the highest rate of 65% in the country's tariff structure. This was a recent adjustment made on arguments by the industry that world sugar prices are highly distorted by subsidies and support given by

developed countries. It is also argued that other developing countries committed higher bound tariffs for the sector. The 50% committed to the WTO as bound rate for sugar by 2004 was thus renegotiated, it appears, successfully.

21. Moreover, while sugar was included among the commodities whose QRs were lifted and replaced with tariff, the *quedan* and market allocation systems which the Sugar Regulatory Administration (SRA) implements give it effective control on the quantity of imports. Under these systems, all sugar is classified according to its market destination and all movement from warehouses is regulated through the *quedans*. The sugar classifications are: A for the US quota market, B for the domestic market, B1 for use of exporting firms using sugar as input, C for reserve, and D for export to the rest of the world. Imported sugar, unless pre-determined by the SRA to be required for domestic use is classified as C sugar and therefore held in storage, until such time that these are re-classified. Consequently domestic sugar prices are about double world prices as shown in the following table.

Sugar Prices
P/50kg raw sugar

	Sugar Crop Year		
	03-04	02-03	01-02
Domestic Wholesale	839.87	929.13	950.09
World*	468.58	477.55	426.87
Imports (FOB)		419.66	425.89
Dom/World	1.79	1.95	2.23
Dom/Imports		2.21	2.23

*US Contract # 11

Source of basic data: SRA

22. The sugar market allocation system is additionally tolerant of inefficiency because it is implemented in a manner that gives all farms and mills an equitable share of each of the markets (Borrel). The SRA mandates the percentages of production that have to go to each of the market categories and all farms and mills follow these percentages. Thus, the most inefficient farms and mills allocate the same percentage of production to the higher-priced B and A market categories as the most efficient farms and mills do.
23. Because of the increase in trade protection as well as investments of the industry in varietal development, the decline in sugar production apparent in the 1990's has been reversed. At present, the industry is saddled with huge carry-over stocks from the last two crop years (SRA). The desire to maintain high domestic prices prompted the industry to ask the NFA to support millgate prices during the peak season (January – February) in the current and past crop year. The NFA support price was and will be slightly lower than prevailing prices of B sugar but substantially above world prices, as shown in the following table. It is however noteworthy that the expected NFA support price this crop year is lower than that

of last cropyear, indicative of the increasing productivity (or declining unit production costs) in the industry.

World, Millsite and Support Sugar Prices

World price Dec 2003 (P/50 kg)	424
Millsite price B Dec 2003 (P/50kg)	835
NFA Price 03-04 (P/50kg)	720
% to world	1.70
% to millsite	0.86
World price Sept 2004 (P/50kg)	562
Millsite price B Nov 2004 (P/50kg)	714
Expected NFA Price 04-05 (P/50kg)	680
% to world	1.21
% to millsite	0.95

Sources of Basic Data: SRA and NFA

24. It is clear that reforms towards improving competition in the industry have been thwarted by the producers and millers who are well organized, have the wherewithal¹ to support advocacy, and practically control the SRA. The SRA administrator is appointed from the industry while the SRA Board, which issues the sugar regulations, is composed of the DA Secretary and a representative each of the sugar planters and millers². The absence of representation from oversight agencies and users/consumers predisposes Board decisions to have limited consideration of broad economic and governance issues as well as consumer concerns. Moreover, the industry is represented in most government policy-recommending bodies such as the Sugar Tripartite Council, the DA's Task Force on WTO Agreement on Agriculture Renegotiations, etc.
25. Tariffs and Sensitive Commodities. The accomplishments in tariff reform have been substantial, even for sensitive commodities. The following table shows the movement of tariffs in agriculture on average and on sensitive commodities. It is worth noting that sugar tariffs was programmed to drop to 50%, which it did in 2003, but it was brought back to 65% in 2004. Rice tariffs have not changed since it has remained under a QR regime.

¹ from various liens collected by the organizations and made mandatory with SRA orders

² The Administrator and Assistant Administrator of the SRA also attend board meetings, as main resource persons and policy implementers, but do not vote on policy issues.

Tariff Rates for Agriculture, Selected Years

Sector	Year		
	1995	2000	2004
Average Agriculture	28	14.4	11.88
Rice	50	50	50
Sugar*	100	65	65
Other Sensitive Commodities*	50 - 100	40 - 65	35 - 40

* out-quota rates

26. The following arguments for continuing the liberalization for the sensitive commodities have been forwarded:
- Protection keeps rice prices higher than in other countries, which in turn exert upward pressure on wages and reduces the country's competitiveness in labor (Tolentino, WB). The latter part was at least acknowledged in the MTPDP when it adopted the agribusiness goal of reducing the price of wage goods.
 - High sugar and corn prices curtail the development of sugar-using industries such as processed fruits, carbonated drinks and juices, and sugar confectioneries; and the hog and livestock industries, respectively (WB, David, Tolentino)
 - Protection keeps investments in the less-profitable protected commodities and away from more profitable commodities (ADB) and exports (WB).
 - The costs of protection are shouldered by consumers (Clarete) and fall disproportionately on the poor (WB). Protection is anti-poor (Roumasset).

Regulations

27. Minimum Access Volumes. MAV commitments were included in the WTO agreement in anticipation of the increases in tariffs that will accompany the process of tariffication. The MAVs are tariff quotas or volumes committed to be imported at much lower in-quota rates. The country committed MAVs for some 15 products including rice, sugar, coffee, poultry, pork, beef, and potatoes. The NFA administers the MAVs for rice while the MAV Secretariat in the DA administers the MAV for other commodities. The MAV volumes were initially allocated to (a) existing importers for products where there had been previous significant imports or (b) producers for other products. These initial MAV holders are required to import the volumes in order to retain their allocation in the following year. New entrants in the MAV system are accommodated using volumes lost by the initial allocation holders provided the entrants show proof of out-quota importation in the previous year (AO9s1996, AO8s1997, AO1s1998).

- This system has been criticized for its bias for existing traders and processors over new entrants (WB).
28. The MAV system is also being blamed for technical smuggling. There is widespread suspicion that the MAV import permits are being re-used several times thus multiplying the volume of imports subject to the lower in-quota rates.
 29. Sanitary and Phytosanitary Regulations (SPS). These regulations, which seek to protect the country against the entry and spread of pests and microorganisms harmful to plants, animals and humans, assumed greater importance with import liberalization. To ensure compliance with SPS regulations, importers and exporters have to go to the appropriate agency to get the appropriate commodity clearance. The involved agencies are: the Bureaus of Plant Industry (BPI), Animal Industry (BAI), and Fisheries and Aquatic Resources (BFAR), the National Meat Inspection Commission (NMIC), the Fiber Industry Development Administration (FIDA), the SRA, and the Philippine Coconut Authority (PCA). The recent effort of the DA to inform traders of these SPS regulations through the DA website and the web-based SPSIS (SPS Information System) is a good start toward reducing private sector confusion about what these regulations are and which agency enforces them. But a perusal of these websites shows that in contrast to animal and meat products where regulations are fairly clear, regulations with respect to plant products, including seeds are not at all transparent.
 30. Each of the regulating agencies has its own distinct mandate to regulate and impose SPS measures. Many regulations are based on outdated legal mandates that were crafted when overall economic policy was based on promoting import substitution and industrialization. Given changes in the general economic policies, the regulations have evolved into a patchwork of administrative measures meant to adapt to current economic thinking while staying within the parameters of existing outdated laws³. For example, the BPI insists that the law requires it to issue import permits and not mere quarantine clearances.
 31. The BPI also needs support in developing the plant pest and disease databases it needs to perform its SPS functions effectively and confidently (BPI)⁴. An Australian institution has expressed interest in supporting the development of plant pest databases, an offer the DA has declined in view of the country's current conflict with Australia on the issue of the latter's SPS regulations on Philippine fruits. The NMIC and BAI are able to immediately institute protective barriers against animal disease outbreaks because the World Organization for Animal Health (OIE) provides extensive information on animal diseases but there is no ready source of incidence of pest and disease information for plants.

³ Based on meeting with DA's inter-agency group on regulations

⁴ Based on interviews with BPI quarantine officials

32. Public Lands Under Stewardship Agreements. Public lands have great potential for contributing to economic growth. In fact, the DENR has various instruments to allow the private sector and rural communities to use public lands for economic activities. By virtue of the Constitution, the lease period is 25 years renewable by another 25 years. Some studies have noted that the lease period is short relative to the logging cycle. Also, the severe limitations in the use of the subject land (e.g. limitations in species to be planted in lands subject of IFMA) prevent more productive investments in these lands. Lands under pasture lease agreements could be made more productive if crop production were allowed or if stricter performance standards were imposed⁵.
33. Land Transfer Limitations under Comprehensive Agrarian Reform Program . The CARP understandably restricts the transfer of lands yet to be transferred under the program. In addition, the Law prohibits the transfer, for period of 10 years, of lands awarded under the CARP; except by hereditary succession or to government, Land Bank of the Philippine (LBP) or other qualified CARP beneficiaries. These saw the disappearance of the agricultural land market and the erosion of the collateral value of agricultural land thus restricting credit for and discouraging investments in agriculture.(Llanto)⁶. These negative impacts are compounded by the fact that the completion of the land transfer component of CARP is delayed.
34. Entrepreneurs have found ways to get around the transfer restrictions for land already awarded under CARP (Llanto). Most arrangements are within the legal framework of the CARP, like contract growing and leasing, and are meant to enable expansions of hectareage cultivated or operated as a unit, to take advantage of scale economies, without actual transfer of ownership.
35. But, there is wide-spread recognition that the negative impacts of land transfer restrictions on collateral value of agricultural land and on the flow of credit and investment for agriculture need to be addressed. Thus there are proposals to lift the transfer restrictions and retention limits on lands already covered by CARP, the argument being that social justice had been served when the land was awarded to beneficiaries under CARP.
36. However, it should be noted that the CARP and the Constitution envisioned agrarian reform as a program to address not only (a) the need for social justice and equity but also (b) the importance of resource-use efficiency and broad-based participation in the economy as the foundations for sustainable economic growth. It was obvious that the country's highly skewed distribution of agricultural land did not support social stability, equity, and efficiency; and that land transfer had to be complemented with aggressive support for beneficiaries to access other productivity requirements (inputs, technology, credit, markets) and enable the

⁵ These issues are discussed in greater detail in the papers on Private Investments and on Natural Resources Management.

⁶ These issues are discussed in greater detail in the papers on Private Investment and Agrarian Reform.

- income and efficiency benefits (PIDS, David). Thus the CARP included both land transfer and social services.
37. Based on the above, one can not argue against the clamor for expanding the coverage of support services for CARP beneficiaries. Also, there is merit to the calls to (a) hasten the completion of land transfer under CARP and (b) ease restrictions in the transfer of land – both of these to lessen the disincentives on credit and investments. However, there is no need to lift the limits on land ownership. It has been shown that access to land and economies of scale are not hindered by ownership limits; i.e. efficiency-enhancing arrangements like leasing, contract growing, and cooperative farming could be forged. On the other hand, the skewed distribution of land had clearly been a source of inequity, inefficiency, and social unrest in the rural areas. Thus inhibiting the skewed distribution of land should remain a policy objective -- if not by out-right land ownership limits, then by other measures like a progressive land ownership tax and idle land tax.

Support Services

38. The DA's focus has been on achieving food security mainly through increasing domestic production and productivity. The production support programs for rice, corn, livestock and fisheries -- DA's banner programs -- all focus on production to meet domestic requirements. The High Value Commercial Crops (HVCC) Program is the only banner DA program that includes increasing exports among its objectives. The 2003 budget appropriations for the DA mostly support National Irrigation Authority (NIA) irrigation and these banner programs as shown in the following table⁷.
39. Other DA functions, including those that are specifically mandated in the Agriculture and Fisheries Modernization Act (AFMA) and other laws, receive very little or no appropriations. Funding for these are augmented or provided by funds under the banner programs. Of course, such provision or augmentation is never certain and much will depend on the convincing efforts of those responsible

⁷ The 2004 budget is a reenactment of the 2003 budget while the 2005 budget had not been approved as of writing of this paper.

Highlights of DA Budget 2003

	P million	% to total
Total	14,873.6	100.0
PS	2,445.3	16.4
MOE	5,680.6	38.2
CO	6,747.7	45.4
MOE for Selected Items	P Million	% of total MOE
GMA	3166.9	55.7
Rice	2066.8	36.4
HVCC	313.8	5.5
Livestock	328.3	5.8
Fisheries	458.0	8.1
Other Services*		
IT Program	46.5	0.8
Agribus and Mktng Support	1.9	nil
International Liaison	8.5	0.2
Seed Quality Control Services	10.7	0.2
Plant pest/disease mgmt	2.1	0.0
Enforcement of plant quarantine	10.4	0.2
Pesticide residue analysis	4.6	0.1
CO for selected Items	P Million	% of total CO
GMA	248.0	3.7
Rice	83.4	1.2
HVCC	68.5	1.0
Livestock	19.3	0.3
Fisheries	76.8	1.1
NIA Projects	4591.6	68.0
locally funded	1779.2	26.4
FAPS	2812.4	41.7

* no specific budget items for standards development, plant variety protection, animal/fish quarantine and disease control

Source of basic data: GAA

for the functions as well as the sympathies of the banner program directors. The lack of certainty as to resources hampers the planning for these functions. DA's report on the target and actual budgetary resources for the AFMA mandated functions as shown in the next table indicates the low priority given to supporting marketing assistance and information dissemination both in target allocations and in actual releases.

AFMA Fund Allocation, 2001-2003

	Annual	Total Allotment (% of target)		
	Target (% of total*)	2001	2002	2003
Irrigation	30.08	83.95	97.75	68.19
Postharvest Facilities	10.03	33.60	16.68	13.04
Other Infrastructure	10.03	41.77	14.18	14.26
Credit	10.03	7.79	0.25	3.16
Marketing Assistance	8.02	8.22	4.04	3.77
Research and Development	10.03	46.50	28.37	21.01
Capability Building	5.01	89.78	74.83	40.00
National Information Network	4.01	8.11	6.57	9.65

* total fund target is P19.95 billion

Source:DA

40. Consequently, DA has been remiss in strengthening important commodity neutral and market-oriented functions. A consultative workshop with the private sector in relation to the drafting of the Medium-Term National Action Agenda for Productivity (MNAAP) for the Agriculture Sector identifies the following gaps as the main factors causing low productivity (David and Innocencio):
- *”lack of adequate and competitively-priced certification and testing laboratories;*
 - *inadequate market information and support structure;*
 - *insufficient resources to promote Philippine products and services;*
 - *weak linkages between and among government agencies, private agencies (production sector) and the academe;*
 - *presence of international and domestic barriers to market entry affecting competitiveness of products;*
 - *poor access of farmers' associations, cooperatives (and small and medium enterprises) to credit; and*
 - *difficulties of producers (and small and medium enterprises) to access materials and technological inputs to serve the product requirements of new and existing markets or slow delivery of new technology/information.”*
41. Inputs Provision. The DA’s production support programs have focused on providing subsidies for various inputs. In the case of rice, certified seeds, purchased by the DA from contracted seed producers, are distributed to program participants. This arrangement effectively discourages greater investments in seed production and distribution. Other areas where government competes with and crowds out the private sector are in the production and distribution of coconut

- seedlings, other planting material, fingerlings, and other farm inputs. The DA has recognized that these input provision programs have to be phased out because it drains the DA budget and its productivity impacts are non-sustainable. Phase-out plans with respect to these various subsidies had in fact been included in the DA's road map to transform their production support programs in support of AFMA.
42. Standards Development and Enforcement. These functions are currently held by several agencies in and outside the DA, including the same agencies involved in SPS regulations as well as the DA Bureau of Agricultural and Fisheries Product Standards (BAFPS), the DTI Bureau of Product Standards (BPS), and the DOH Bureau of Food and Drug (BFAD). The creation of the BAFPS as coordinating agency for agriculture and fisheries standards development and enforcement was mandated in the Agriculture and Fisheries Modernization Act (AFMA) to enhance the competitiveness of Philippine products. The DA has organized said Bureau using staff detailed from its various agencies pending DBM approval of plantilla positions. Its operating budget is sourced from the various commodity programs, specifically the GMA HVCC.
43. The organization, currently the size of a DA service division, has developed voluntary product standards for a number of key exportable and locally consumed goods⁸, and has accomplished the same through extensive cooperation with the private sector. But it needs to hasten its pace of standards setting if the quality competitiveness of emerging and potential exports is to be ensured. A look at Philippine exports to the US shows substantial rates of rejection due to quality reasons (de Leon).
44. The Bureau has also taken on the important function of participating in international and regional standards setting under the CAC and ASEAN. A proactive stance in this function is important because no international standards have yet been adopted for a few of the country's exportable products (de Leon). Participation in the standard setting process could ensure enhancement, or at least maintenance, of the country's current export market access.
45. Quality Certification. The agencies involved in standards development are also involved in quality certification. In addition, the Food Development Center (FDC), an agency attached to the NFA, provides this important service, as well as standards compliance advice, to food exporters. The BAFPS has also developed guidelines for, and began, accrediting certifying institutions with respect to some of the standards the Bureau has developed. But a huge gap remains and the lack of adequate laboratories has hampered the provision of this service, especially for the non-traditional exports (de Leon). Given its importance and government's financial constraints, it seems appropriate that the various institutions involved in standards enforcement develop the capacity to accredit and monitor private laboratories so that these may certify on government's behalf. Of course the

⁸ Fresh mango, pineapple, durian, pomelo, saba, cabbage, broccoli, lettuce, cutflower, green coffee beans, shelled corn, corn grits, organic agriculture, and virgin coconut oil

- government will also need to maintain its own laboratories even if only to monitor, validate or review the performance of accredited private laboratories. The service fees for government laboratories also have to be reviewed and updated if warranted so that these laboratories can be self-sustaining.
46. Market Information. The AFMA mandated the institutionalization of the National Information Network -- a network from the national to the municipal level that will provide market information including “*supply, demand and price information, product standards, directory of agricultural players and institutions, research and technology information, market forecasts and resource accounting data*” (AFMA). The DA website currently provides information on production and prices from the BAS and some technology information on a few commodities. Also in the DA website and hidden under the heading “opportunities”, the Agriculture Marketing Assistance Service (AMAS) provides basic commodity-specific information on the international market situation of selected commodities. The DA should continue to work at improving the content as well as the presentation of the market information. For example, information on current prices, demand, and quality standards in international markets; on superior plant varieties and their production requirements; on sources of quality planting material; on availability and sources of small machinery and equipment; on availability and prices of fertilizer and pesticides; product standards and quality certifying agencies are examples of information that would prove useful to farmers and agriculture entrepreneurs. Some of these may even be easily available from some DA unit.
47. Under the WB-supported Diversified Farm Income and Market Development Project (DFIMDP), a market information cluster consisting of the AMAS, BAS, ITCAF, Agriculture Training Institute (ATI), Agriculture and Fisheries Information Service (AFIS), and National Agriculture and Fisheries Council (NAFC) has been organized to better tackle the market information service under a new vehicle – the Agriculture and Fisheries Market Information System (AFMIS). The AFMIS will have systems for (i) collecting data based on clients’ needs, (ii) processing and analysis of data into useful market information and knowledge, and (iii) dissemination of information on a timely and regular basis to clients. There are even plans to have local or provincial AFMIS which shall be linked to the national AFMIS. The DA needs to devote resources to increasing capabilities in this cluster and implementing the AFMIS.
48. The AFMIS should be able to take full advantage of ICT so that information storage, processing, transmittal and dissemination is efficient. In addition to lack of hardware and spotty web access, the IT system of the DA suffers from the lack of standard as to database platform. Oracle was used in the past, but when the DA’s license for this software expired and was not renewed, systems developed using the Oracle platform could not be used. Last year, DA planned to buy a license for D-Base following competitive bidding, which, if accomplished, would

- render previously developed systems unusable. This issue of standard platform and continuity of licenses should be resolved.
49. Varietal and Technology Improvement. Two pieces of legislation have potentially big impacts on the development and uptake of new varieties and use of quality seeds. These are the Seed Industry Development Act of 1992 and the Plant Variety Protection (PVP) Law of 2002. In addition, regulations pertaining to the testing and commercialization of biotechnology, embodied in AO8s2002 are critical. The Seed Act seeks to promote the development of the seed industry by “encouraging the private sector to engage in seed research and in mass production and distribution of quality seeds” (MO3, s1994). The PVP Law promotes the same by providing protection to owners or breeders of new varieties that meet distinctness, uniformity and stability (DUS) criteria. AO8s2002 seeks to allow the entry of biotechnology in agriculture subject to regulations that address bio-safety concerns. The BPI plays a big role in the implementation of all three.
50. To implement the Seed Act, the BPI, through the National Seed Industry Council and Technical Secretariat, has been conducting field testing and evaluation of promising crop varieties and hybrids, registering those which are deemed superior in terms of production and disease resistance performance, and formulating guidelines on seed certification and standards. Indeed, the BPI has a list of so-called superior varieties for various crops but it has not taken the next step of cooperating with other institutions in the DA for the promotion of these varieties. For example, information on the registered varieties and the sources of quality seeds has not been included in DA market information database.
51. With respect to the PVP Law, the BPI, as interim PVP Office, has began accepting applications for protection, drafting the DUS guidelines for the various commodities and putting together the various variety databases. To date, it has not acted on any of the 12 applications received because of the inherent technical difficulties in developing the DUS guidelines and putting together the variety databases. DUS guidelines on only one crop has so far been completed while the guidelines for 7 more crops await the identification of check varieties for the various characteristic descriptors. Also variety database systems for 5 crops are awaiting variety data. The law was passed in mid 2002. Its IRR was issued in January 2003 but because of the budgeting calendar, the implementation of the PVP Law did not receive a specific budget allocation that year. Neither was specific budget support given in 2004, as that year’s budget was a re-enactment of the 2003 budget. With the initial enthusiasm demonstrated by the private sector in terms of application, this function needs to be supported with the appointment of a regular Registrar⁹ and permanent staff and the allocation of an adequate budget for the PVP Office. The applicants for PVP are expected to shoulder the full cost of application processing but the development of the basic systems to enable processing should be provided up-front.

⁹ The BPI Director acts as interim Registrar in accordance with the PVP Law.

52. The DA has made substantial progress on allowing the selective entry and release of products of biotechnology in the last two years. AO 8 issued in 2002 defined the rules and regulations for the (a) field testing, (b) commercial planting, and (c) importation for direct use as food or feed or for processing of GM plants and plant products particularly risk assessment principles to be used to assure human, animal and environmental safety. This has been complemented by a series of issuances and actions that saw the approval for field testing and commercialization of Bt corn MON810; and the approval for direct use of products subject of 19 biotech transformation events made on corn, canola, sugar, potato, cotton and soybean. The preparations for issuing regulations on livestock, and fish products are in progress.
53. The low level of investment on research and development (R&D) was identified as a major reason for the country's poor agriculture growth (David). The creation of the Bureau of Agriculture Research (BAR) and the subsequent increases in the budget allocations for R&D sought to correct this but there continues to be major issues in the allocation of research resources (David), in the coordination of the research activities (see paper on R&D), and on its responsiveness to market requirements¹⁰. Additionally, developments in IPR highlight the need for protocols on IPR with respect to publicly funded research results.
54. Market Promotion. The AFMA mandated the provision of market assistance services. For this, the DA created the AMAS, which had also been charged with developing the NIN. The market promotion of AMAS has focused on the organization of domestic trade fairs, and facilitating private sector participation in international fairs and selling missions. In the past year, the Service facilitated the country's participation in about a dozen international trade fairs and selling missions. Complementary negotiations to improve access in trading partner markets is handled by the Policy Group and its International Relations Service while technical work to respond to SPS concerns of the trading partners are handled by the appropriate Bureau or Agency. Clearly, there is much room for improving the quality of preparatory work or technical studies to support the country's negotiating stance, as shown by the experience in its bid to export mangoes and bananas to Australia.
55. Credit Facilitation¹¹. Inadequate rural financing is nested within the larger problem of weak rural economies. Thus strategic support for rural economies like appropriate economic policies, basic infrastructure and an environment conducive to private investments will correct most rural financing inadequacies. But there are some issues that require specific response measures, among these the

¹⁰ More of this discussion in the paper on R&D.

¹¹ This section are actually sections from a working paper on rural financial markets prepared by Dr. Gilbert Llanto.

- financing of long-gestating projects, financing support for diversification, AFMA provisions on financing¹², and the financing of small and medium-size enterprises.
56. Philippine microfinance institutions (MFIs) have successfully designed effective ways of providing sustainable finance services to poor households and micro-enterprises. Many of these micro-enterprises are urban-based but it is noted that MFIs have also successfully provided loans to rural households with off-farm activities, e.g., raising backyard livestock and poultry. Their successful clients eventually demand bigger loans in view of business expansion and other purposes. Thus, while their credit demands increase, the MFIs are hard pressed to meet those demands.
 57. Limitations imposed by the MFIs' small equity and the lack of capacity and technical know how in dealing with bigger loans discourage attempts to provide much bigger loans and other types of financial services, e.g., demand deposits. Thus, microfinance clients who "graduate" from loans provided by the microfinance institution, face a credit gap. The graduates' financing requirements are now too large to be met by the microfinance institutions but too small to be attractive to the bigger banks.
 58. Commercial and thrift banks service mostly the large farmers, plantation agriculture, large scale agri-businesses, commercial fishing, marketing and distribution controlled by high income economic agents. They fail to address the demand for loans and other services by growing micro-enterprises and middle-sized enterprises. See the following table for an illustration of this situation.
 59. The situation creates a financing gap which constrains the micro-enterprises' growth. In terms of loan size, MFIs can provide maximum loans up to Pesos 150,000 and rural banks around Pesos 1.5 million in non-microenterprise loans. On the other hand, the average loans released per account by thrift banks (mid-size banks much smaller than commercial banks) would be around Pesos 10 million, although one thrift bank indicated that the smallest loan it can give is around Pesos 1 million.
 60. Credit cooperatives have also provided loans to rural and agricultural areas. Although many of the large cooperatives are usually urban-based, a few have managed to lend to farmers and other rural-based economic agents. The experience of some credit cooperatives in Mindanao that have participated in a USAID project on the strengthening of credit cooperatives indicates their huge potential to be viable financial intermediaries in the countryside. Some of the successful credit cooperatives in other parts of the country have also acted as conduits of microfinance loans from the People's Credit and Finance Corporation, a government-owned microfinance company.

¹² See paper on private investments for discussion on issues related to the financing of long-gestating projects, diversification and AFMA provisions for an Agricultural Modernization Credit Financing Program (AMCFP)

Rural Activities and Corresponding Source of Financing	
Farm-based activities ↗ Large farms	Commercial banks
Small farms	LBP, rural banks, traders, input suppliers, informal lenders
Off-farm activities ↗ Small and medium enterprises	LBP, DBP, private development banks,
Micro-enterprises	PCFC, MFIs, informal lenders
Primary production by small farmers	LBP, rural banks, traders, input suppliers, informal lenders
Plantation agriculture, e.g. pineapple, bananas	Commercial banks
Agro-processing	Commercial banks, LBP, DBP
Agri-business and marketing	Commercial banks, LBP, DBP
Aqua-culture	Commercial banks, LBP, private development banks
Commercial fishing	Commercial banks
Municipal fishing (small-scale fishing)	Rural banks

“PCFC” – People’s Credit and Finance Corporation

“LBP”- Land Bank of the Philippines

“DBP”- Development Bank of the Philippines

Source: Table 22 of Llanto (2004b)

61. However, an interview with the largest federation of cooperatives in the country revealed that purely agriculture-based credit cooperatives are seldom sustainable. The seasonality of agriculture-based activities makes it difficult for cooperatives which are solely focused on agriculture-based activities to be viable and sustainable in the long run. Those rural-based credit cooperative will require loan portfolio diversification across different sectors, covering a diversity of economic activities and members engaged in various income generating activities. They also need to raise resources to address the inadequacy of their capital and to mobilize more deposits. However, there is currently a lack of proper regulation and supervision to protect members’ share capital and deposits. Effective regulation and supervision will help generate public confidence in the credit cooperatives as viable financial intermediaries in the countryside.
62. Economic Organization Facilitation. Given that most Philippine farms are small, an important service that could promote greater activity in the farm sector is research and information dissemination on successful models for, or best practices in, economic organization through private joint undertaking such as contract farming, adopt a farm, cooperative farming and marketing, industry associations, etc. Economic organization can potentially address not only marketing

difficulties, but also technology and financing access issues for small producers and traders. The AMAS currently does some initial market matching for processors and producers but there is no effort in the DA to research and disseminate information on, or actively support development of, viable economic organization.

Program Planning and Implementation Issues

63. Devolution. The devolution of various development functions to the LGUs has resulted in a mismatch in LGU responsibility vs. capability and resources¹³ (David). The fact that IRA entitlements were made equal across the LGUs of the same level has also resulted in very little being given to the most resource-poor, i.e. the 4th and 5th class municipalities while those that can easily generate resources (1st class cities) continue to get an even bigger IRA. The current allocation system is deemed systematically biased against the relatively poor, agriculture-oriented localities (Cabanilla).
64. To compound the IRA issue, it appears that the devolution of functions failed to consider the importance of scale in planning for service provision. In particular, the municipality extension workers could be better supported if they are within the planning terrain of the provincial government¹⁴.
65. Moreover, the agriculture agencies have not actually adopted a devolved mode in the planning and funds management of its various programs and services. The NAs have held on to program planning and funds management, relegating LGUs to being program implementers (David). As such, the LGUs comply with the NAs' various and divergent reporting and documentary requirements, which in turn muddle up the LGUs own planning cycle processes (GTZ). Also, the facilities under which the LGUs can access DA resources for locally initiated projects are quite limited, reflecting DA's own priorities and limiting the options for LGUs (Cabanilla).
66. The DA knows how to enhance its program planning and implementation. In fact the DA's blueprint for food security listed the following principles in the DA's development and implementation of programs:
 - *“Participatory approach. This means participatory planning, implementation and monitoring and evaluation would be done with all stakeholders. SUCs, NGOs and farmer's group would be active participants in the GMA program. Program areas, strategies and interventions would be identified with them. The main input for identifying GMA interventions is the local development plan of the provinces.*

¹³ More of this discussion in the paper on infrastructure.

¹⁴ More discussion on this issue in the paper on R&D.

- *LGU-led program implementation. The local government units would be the lead players in the implementation of the GMA program. The DA (Department of Agriculture) and DILG (Department of Interior and Local Government), along with other concerned agencies will provide the necessary technical and financial support.*
- *Area-based approach. The GMA program would identify interventions based on the domain specificity of the program areas. A situation analysis would be required focusing on the water, soil, climate, production, human resources, processing and marketing endowments of the program area. The comparative advantage or competitive edge as well as the scale economies present in the area, among others, will be the central criteria in the selection of program areas/interventions.*
- *Capability-Building. The GMA would promote local capability-building in the areas of participatory planning - implementation, monitoring, evaluation, research and extension, processing, marketing and entrepreneurship, among others.*
- *Focused targeting. Programs would be developed based on the situation of the people. Programs catering to the poor as well as the big farmers would be designed. Programs would be identified for "winners" or impact areas and also for marginal areas.*
- *Counterpart schemes. The DA, DILG, other concerned agencies and LGUs would enter into program financing arrangements which would entail counterpart funds from each partner, to be stipulated in a memorandum of agreement. The counterpart amount would be based on the partner's capacity. Contributions in kind, such as personnel, facilities and services are included.*

Summary

67. In summary, the following are the main issues in current government interventions that have impeded the full participation of the private sector and the LGUs in increasing growth in agriculture:
- The important policy reforms have been articulated, most have been adopted but a number of the most critical have not been undertaken. This has resulted in wide disparities in policy and program environments across sub-sectors. A few favored sectors – rice, corn, sugar, livestock, poultry -- are widely supported by trade protection, incentives, and subsidies, making the other sectors less preferred investment areas.
 - The regulatory framework was left incoherent because it is based on outdated legal mandates juxtaposed with more recent changes in economic policy

paradigms. Despite the pronouncements for liberalization and openness, a number of regulations tend to protect the interests of the existing players, discourage competition and restrict entry. Some regulations, seeking to address current concerns within the parameters of outdated laws, are unnecessarily onerous or intentionally vague. Finally, a lack of transparency and standard protocols in the implementation of most regulations leave windows of discretion that are opportunities for corruption.

- The Department of Agriculture (DA) and its attached agencies focused the bulk of its efforts and resources on national programs that increase production by directly providing some strategic inputs – irrigation, planting material, fertilizer, credit, dryer, warehouse, market, etc. In many of these programs, government undertakes functions that compete with or crowd out the private business sector. At the same time, mandated market facilitation functions, such as standards development, quality certification, market information services, market promotion, and plant variety protection remain grossly inadequate
- The devolution of the responsibility for agricultural development to the LGUs has not been matched with the appropriate resources and support programs. The IRA is systematically biased against the poor municipalities (Cabanilla). The DA continues to undertake and control most development program design, planning, and funds management, and have very limited support facilities for LGUs, discouraging the LGUs' efforts to initiate and develop their own programs.

Recommended Agenda and Action Plan

Adopting sector-neutral incentive and protection systems

68. Continue liberalization on sensitive commodities – rice, sugar, corn, meat, vegetables, and coffee. The important task is to avert reversals so that the program steadily proceeds. If the producers need temporary additional protection due to irregularities in the world market, safeguards and special safeguards under RA 8800 may be availed. It is important that confidence is developed on these safeguards mechanisms, possibly by constant information dissemination. Monitoring the industries affected, producing regular and meaningful sector situation and outlook papers, highlighting potential problems and opportunities, and encouraging or supporting sector-initiated responses, outside of increasing tariff protection, will also be helpful. This is a task that can be done by the DA Policy Service in conjunction with the NAFC.
69. Prepare to tariffy the rice QR. While there is effort to negotiate the extension of the exemption of rice from tariffication under the WTO, the DA should be prepared to eventually (before or at end of the extension period) eliminate the QR.

- The plan to prepare the sector should be drafted and implemented as soon as possible. Said plan should include not only (a) adequately funded safety nets, diversification and productivity enhancement support for affected farmers but also (b) a communications program aimed at the general public that has so long been conditioned to think that rice self-sufficiency is ideal and (c) a program to gradually free up the market -- allow more and more private sector importation, maybe expand the QR and adjust tariffs -- so that the market changes or shocks with QR elimination is minimized. The objective of administrative action should be to make the QR redundant or ineffective even before official QR elimination is undertaken.
70. The attempt to tariffy the rice QR in 2001 did not prosper because the timing was wrong: the renegotiation on the WTO Agriculture Agreement was around the corner and it was thought that tariffication would reduce the country's bargaining leverage. No program to prime the sector had been implemented so it just was not prepared. This time, the preparation program will be implemented before the actual tariffication. Done correctly, tariffication, which requires the passage of law, should be easier to enact.

Reducing competition-dampening government participation in or regulation of the market

71. Separate the NFA's regulatory and trading function. This should accompany the rice tariffication preparations. It will require the passage of a law. The DA, following the cue of the Medium Term Philippine Development Plan (MTPDP), should take the lead in supporting Congress in drafting the appropriate bill that will be true to the policy intent and consider the concerns of NFA employees, farmers and poor consumers. In particular, the bill should create a trading corporation that will implement the support prices for farmers, maintain the requisite reserves, and unload in markets as required for emergency relief or to correct market irregularities, on rules established by a separate regulatory agency. The trading corporation may also participate in the rice market as a regular player on commercial terms under the same rules as other private traders. The regulatory agency should administer the import rice QRs and MAVs (in the meantime that these remain).
72. The effort to reform the NFA should address the main sources of resistance to the reform, which are (a) the NFA employees who fear a loss of employment and income; (b) the farmers who anticipate the scrapping of the price supports at the farmgate; (c) the consumers who benefit from the NFA's consumer support prices; and (d) the politicians who rely on NFA's palay and rice subsidies for their community assistance programs. In the past, the strongest opposition was met from the NFA employees. This time, the NFA should be involved in the advocacy, particularly with its own employees some of whom may need help to prepare for new functions. It will help if the DOF tightens the NFA's access to increased credit guarantees as this will force the NFA bureaucracy to feel the fiscal crunch and advocate for reforms that will serve to clean its books. Also, as

- the loss of support for poor consumers and farmers are used as the main argument against reform, the government should make it clear that such support will not be eliminated.
73. Tighten targeting of NFA's rice subsidies to the poor. Prior to NFA reform, it should be asked to get out of distributing subsidized rice and other products. This task should be transferred to the DSWD and LGUs which should, following the Kalahi model, work with community organizations, within a comprehensive poverty eradication framework. In this way, the direct impact of the NFA reform on the poor consumers, and opposition to reform on this basis, will be lessened.
 74. Modify SRA's market allocation system. This can only be accomplished with SRA direction. Thus, the first task is to expand the SRA Board to enable more balanced and less parochial policy decisions. While tariffs are high, the reserve category should be permanently abolished to allow greater latitude for individual decisions on where and when to move stocks and to remove the constraint on importers. Changes in the allocation of the high priced US quota or any other future export quotas should also be considered to encourage the least efficient and low quality producers to shape up.
 75. Phase out input-subsidies under the DA production support programs. The DA should prepare its phase-out plans, which should include: a review and streamlining of regulations imposed on input traders such as licensing, standards, handling, storage, packaging, and labeling; and a program to monitor and regularly disseminate timely and comprehensive information on input availabilities, dealers, traders, and prices. These will limit disruptions in the farmers' access to these inputs.

Institutionalizing firm-neutral, transparent, and streamlined regulatory systems

76. Modify the MAV allocation and documentation system. Should the WTO renegotiation results require expansions in the MAVs instead of their abolition, changes both in the allocation system and documentation system should be explored. In particular, the allocation by auction should be studied to promote fair access among competing importers. Also the electronic tracking of transactions, by both Customs and DA, should be implemented to prevent technical smuggling using the MAVs.
77. Streamline SPS regulations. All agencies should be encouraged to provide greater transparency in its regulations within the framework of the SPSIS. They should also be encouraged to adopt, and make transparent, protocols -- standard requirements, guidelines, procedures, process time frames -- in the implementation of the various regulations. Where appropriate, the development of systems for on-line applications and processing should be considered and supported. Resistance to streamlining is expected, especially if there are rents in the current vague and cumbersome set-up. The DA Secretary should make it clear

- that the streamlining of the SPS regulations is a priority. Those who will benefit, and these are the traders that play fair, should be asked to rally behind the effort.
78. The various regulations should also be reviewed with respect to intent and legal basis in order to identify areas where laws need to be reformed or issued. Also, a proposal to build up a plant pest and disease database, not necessarily at the BPI, should be included in the project pipeline.
79. The streamlining of the SPS regulations, specifically the adoption of transparent protocols, should be able to make more apparent cases of regulatory capture in various sub-sectors and thus alert stakeholders and policy makers to advocate for more definitive studies and begin the process for necessary changes.

Enhancing access to international markets

80. Support standards development and quality certification. The BAFPS needs to be supported with permanent management and staff positions and an adequate operating budget. The keys are the approval of the DBM of the BAFPS's proposed plantilla positions and the provision for BAFPS in the DA budget. The DA and DBM should get together to finally resolve the issues. DBM should understand that the existing agencies, already poorly equipped and staffed, had been and remain oriented towards protectionist or import regulations. Thus their SPS measures focus on quarantine and product standards that protect the country against the entry of pests and diseases stemming from imports. The BAFPS is focused on product standards that will enhance the country's access to international markets. The objectives and the nature of standards are thus entirely different.
81. The BAFPS should be encouraged to continue working with the private sector to accelerate the development of voluntary standards and give priority to initiating in CAC work on products of export interest to the country. It should also focus on developing guidelines for and accrediting certifying organizations. Both standards and certifying organizations should be publicized. While resources should be devoted towards equipping government laboratories, this should be within a rationalization framework that will allow sharing of facilities across agencies.
82. Strengthen market promotion efforts. The DA should establish specific market promotion priorities, on which basis, the analytical and negotiating work should be strengthened. The priorities may include: SPS issues in Australia and other markets for Philippine fruits and preferential trade agreements with Japan and China. Other types of market promotion, such as participation in trade fairs and selling missions, should be left largely to the private sector, supported only as required with assistance in information, registration, and program arrangements.
83. Develop capacity for market research. The AMAS should be equipped with adequately trained staff, access to consultants, and research resources. Trade

attaches should be similarly equipped and should be assigned, on products and markets identified by the AMAS, to generate specific outputs in market intelligence gathering. Market research should be included in the R&D budget while industry groups and the academe should be encouraged to contribute research effort and information. The AMAS should take efforts to network with industry groups and academic programs.

Generating and disseminating critical knowledge and information

84. Develop the AFMIS. The AFMIS cluster should get to work on drafting a framework and development plans, developing DA-wide database standards, developing the component systems – information gathering, processing, storage, transmittal, packaging, and dissemination -- including identifying roles, and operationalizing the systems. At the same time, resources should be provided for building up the hardware requirements, accessing efficient internet service and ensuring the continuity of requisite software licenses. The DA should consider using the increasing commercially available DSL broadband access and abandon its satellite dish build-up program. Also, the use of the SMS technology in information dissemination should be considered as cellular phones are much more accessible than computers in many areas. The DA agencies and bureaus outside the cluster should be also encouraged to contribute available and useful information. The cluster should establish means to get user feedback, including regular surveys, and consider these in planning system improvements.
85. Implement the PVP Law. The DA should take steps to organize and equip the PVP Office, including working for the President's appointment of a Registrar. It should institutionalize office procedures and protocols by issuing a manual of standard operating procedures. The technical support groups that will help in the development of DUS guidelines and technical examination of varieties subject of PVP applications should be organized and supported. Resources should be provided for populating and further developing the database systems and continuing the work on DUS guidelines development.
86. Continue development of regulations for biotechnology. The drafting of regulations for the entry and commercialization of livestock and fisheries biotechnology products should commence. In the meantime the DA should continue to dialogue with the public regarding its biotechnology policies and show that it is prepared to address any emerging safety concerns. It should support continued staff training on the testing of biotechnology products and provide resources to equip the testing laboratories.
87. Address issues in R&D¹⁵. The government, led by the DA, Department of Science and Technology (DOST) and DENR or a high level R&D Committee, should take steps to improve the coordination structures in R&D, possibly (a)

¹⁵ The recommendations are expounded in more detail in the chapter on R&D.

initially through MOUs, (b) the adoption of a common system for developing the research priorities program, and (c) the sharing of research networks. Studies, including the review of international best practices, should be undertaken with a view to improving the research resources allocation system and making it more demand- and need-responsive. Protocols on IPR for publicly funded research should be adopted as allowing researchers to share in the benefits of IPR will encourage greater market orientation in research projects. Lastly, the research coordinating agencies should network with industry, as the latter should be encouraged to maximize their contributions to R&D by way of broadening participation.

Improving access to land and credit

88. Address issues in land markets. Legislation is required to ease restrictions in the transfer of land covered by CARP and exempt banks from the 5-hectare limit in land ownership. This is a politically sensitive reform -- many farmers groups and other socially-oriented groups believe that it is the government's responsibility to ensure that small farmers maintain control and ownership of farmlands and that easing land transfer restrictions and exempting banks from the limit will encourage transfers and credit that is likely to lead to foreclosures. The Office of the President (OP), aided by analysis from the NEDA, will have to muster the political will to support this reform. In addition, the reform could be (1) minimized to the most important -- for example, exclude the lifting of the 5 hectare limit so that land will remain legally transferable only to those holding none or less than 5 hectares, and/or (2) complemented in the same legislation by sweeteners such as the allocation of specific resources for completing land transfer under CARP as soon as possible and the institution of an idle land tax.
89. Address issues in public land access. The DENR, assisted by an appropriate TA, should work to tighten performance standards and adopt proper pricing for public lands under lease agreements. These will encourage the more efficient use of the land. Such move will meet opposition from holders of various lease instruments, many of whom would be politically connected. DENR and NEDA should work together to provide analysis to the OP that will allow the latter to muster the political will necessary for the changes to be adopted.
90. Extending the lease period for public lands will further encourage greater investments and productivity. This however will require an amendment in the Constitution. In anticipation that an opportunity to do so may happen, the DENR and NEDA should begin to commission studies that would review the performance of holders of these various lease instruments and look at the expected impact of such Constitutional amendment.

91. Address the gap of financing for small and medium sized enterprises¹⁶. The WB and other donors could be asked to provide technical advice on how to address this financing gap and possibly, develop a financing program where private banks can learn new credit delivery technologies and innovative financial instruments. Also, the Cooperative Development Authority should develop its capacity for effective regulation and supervision of credit cooperatives to build up confidence in these institutions and enable expansions in their loanable funds.

Improving LGUs' capacity to undertake development programs

92. Institute DA wide information assistance services for LGUs. The target clientele of the AFMIS should include LGUs. In addition, a specific unit in DA operations should be tasked to accept LGU inquiries and point them to relevant DA office. Also all DA units should be asked to prepare relevant information sheets and/or identify information/ liaison officers to address LGU needs
93. Address issues in devolution¹⁷. The review of the LGC should be commenced with a view to correcting the provisions that serve to hinder LGUs from efficiently and effectively performing their responsibilities. For example, growth could be better pursued if the locus of agricultural planning and support services is lodged in the province instead of the municipality, as presently mandated. Also, development could be better encourage if the IRA entitlements accounted for differences in LGU needs and performance instead of equally among the same level of LGU.

Facilitating private joint undertaking, contracting and economic organization

94. Develop capacity to research, disseminate information, and facilitate economic organization. This task should be assigned to a specific DA unit, possibly the AMAS, whose job will be to solicit the assistance of involved players in the documentation of positive experiences in economic organization and organize fora to share lessons among current and potential players in such arrangements.

Action Plan Matrix

95. The action plan, showing output indicators, responsibility centers, implementation time frames and expected levels of impact on rural growth is shown in matrix form in the following pages.

¹⁶ This is taken form a working paper on credit prepared by Dr. Gilbert Llanto.

¹⁷ These recommendations are discussed in greater detail in the papers on Infrastructure and R&D.

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Overall Strategic Thrust: Creating a hospitable environment for the private sector and rural communities to pursue market-driven increases in productivity and diversification

Key Lever or Agenda	Responsible Agency(ies)	Implementing and Complementary Action	Output Indicator	Time Frame	Impact
Strategic Thrust 1: Adoption of sector neutral incentive and protection system					
Continue liberalization (avert reversals on tariff program) on sensitive commodities – rice, sugar, corn, meat, vegetables, coffee	DA Policy Group	Monitor and analyze situation and outlook of subject products	continued tariff reduction for sensitive commodities enabled in EO	commence immediately and implement over 5 years	med
		Work with producers to address potential problems and opportunities			
		Develop confidence in safeguards system			
Prepare to tariffify rice QR	OP, Agri Sec.	Adopt policy	Policy statement possibly in the SONA	in 1 year	med
	DA Policy Group, NFA, DA Operations Group	Draft change preparation plan: Safety nets, productivity support, diversification support Communications and advocacy Make QR redundant: Gradually expand QR and adjust tariffs Phase out NFA import monopoly: privatize bigger portions of the QR	Change Preparation Plan drafted, consulted, and implemented	draft in 1 year and implement over 5 years	
Key Lever or Agenda	Responsible Agency(ies)	Implementing and Complementary Action	Output Indicator	Time Frame	Impact

Strategic Thrust 2: Reduction of competition-dampening government participation in or regulation of the market					
Separate NFA's regulatory and developmental functions from its trading function	OP, NEDA, Agri. Secretary, NFA, DA Policy Group	Support passage of law amending NFA structure	law advocated and enacted	in 2 years	med
	NFA	Prepare change management plan	Plans drafted and consultations conducted	complete in 1 year	
	NFA, CSC	Provide support for displaced staff		complete in two years	
	NFA	Involve NFA: prepare organization		Immediately and until completed	
Tighten targeting of NFA's rice release and subsidies to the poor	OP, DSWD, NFA	Consider/study coupon system, ID system Work with DSWD, community, and NGOs	study and consultations completed; IRR on program issued possibly through DSWD AO	study and implement in 1 year	med
Modify SRA's market allocation system	SRA with industry	Consider auction or performance-based allocations of US quota	SRA Sugar Order issued	study and implement reforms in 2 years	high
	SRA	Permanently eliminate reserve category while tariff is high	SRA Sugar Order Issued	in 2 years	
	OP, DA Sec., NEDA	Expand SRA Board	EO amending composition of Board	in 1 year	
	SRA	Safety nets	Plan drafted, consulted and implemented	complete plan in 1 year and implement over 4 years	
Key Lever or Agenda	Responsible Agency(ies)	Implementing and Complementary Action	Output Indicator	Time Frame	Impact
Phase out input-subsidies under the DA production	NAFC, Agri Sec.	Inform stakeholders	press releases and AO issued	over two years	low

support programs	DA Policy Group, FPA, BPI, BFAR, BAI	Review/streamline standards, handling, licensing, certification and other pertinent regulations on inputs	input regulations reviewed and streamlined	complete in two years	
	DA ITCAF, FPA, BAI, BPI, BFAR	Publish (web, etc.) comprehensive list of input suppliers and prices	systems developed and installed	commence in 1 year	
Strategic Thrust 3: Institutionalization of firm-neutral, transparent and streamlined regulatory systems					
Modify the MAV allocation and documentation system	MAV Sec.	Consider auction	study and consultations completed; DA AO to amend IRR on MAV issued	in one year	med
	DA ITCAF, BOC	Develop on-line transactions recording and monitoring system to be shared by DA and BOC	systems developed and installed	in two years	
Streamline and make transparent SPS and other regulations	DA Policy, Legal	Review legal basis of regulations and amend /supplement as necessary.	review completed, required AOs issued, required legislation drafted, advocated, and enacted	review completed and AOs issued in 1 year; legislation issued in 2 years	high
	DA Policy, ITCAF	Improve the SPS Information System	SPSIS updated and completed	in 1 year	
	DA Policy, Regulatory Agencies	Develop transparent protocols	protocols drafted/streamlined and publicized	key regulations in 1 year; all regulations in 2 years	
	Regulatory Agencies, ITCAF	Consider on-line transactions	systems developed and installed	in 1 year	
	Regulatory Agencies	Consult with and inform stakeholders	consultations conducted	through reform process	
Key Lever or Agenda	Responsible Agency(ies)	Implementing and Complementary Action	Output Indicator	Time Frame	Impact
Strategic Thrust 4: Enhancement of market access in international markets					

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Support standards development and quality certification	Agri Sec., DBM, BAFPS	Provide the BAFPS permanent positions, budget and other resources	plantilla approved and filled; budget specified	in 1 year	high
	BAFPS through organized task forces	Work with private sector in standards development and certification	working groups organized	commence immediately and continue	
	BAFPS with support of other reg agencies	Initiate standards adoption under CODEX for niche exports	proposed standards submitted	commence immediately and continue	
	BAFPS-led task force+consultants to study	Equip but rationalize government laboratories	rationalization study completed; lab funding sources/modes developed; labs upgraded	rationalization plan in 1 year and equip thereafter	
	BAFPS, ITCAF	Publicize standards and certifying bodies	information included in BAFPS, DA websites	commence immediately and continue	
	BAFPS, AMAS?	Provide technical assistance to SMEs	technical assistance mechanism established	study viable mechanism over 6 months and commence thereafter	
Strengthen market promotion efforts – see paper on private investments	DA Policy, AMAS to set priorities; agencies to do studies	Support analytical and negotiating work based on specific priorities such as: SPS issues in Australian/other markets China/Japan markets under trade agreements EU/US markets under GSP Work with private sector	priorities established; task forces created	commence immediately and continue	high
Key Lever or Agenda	Responsible Agency(ies)	Implementing and Complementary Action	Output Indicator	Time Frame	Impact

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Develop capacity for market research	AMAS	Work with industry groups/ academe	linkages/networks forged	in 6 months and continue	high
	Agric Sec	Equip AMAS – staff, consultants, other resources		in 1 year	
	Policy, AMAS	Equip and use trade attaches		in 1 year	
	BAR, Policy	Include market research in R&D budget / market research capacity building TA pipeline	market research projects receiving allocation in R&D budget; capacity building TA on pipeline	in 2 years	
Strategic Thrust 5: Generation of, and enhancement of access to, critical knowledge and information					
Build up the AFMIS (NIN)	AFIS	Update NIN / Prepare AFMIS framework and development plan	Framework and Development Plan drafted and consulted	in 1 year	high
	AFIS	Standardize database platform and structure	database standards issued	in 1 year	
	ITCAF	Build up hardware requirements; Ensure efficient web service and continuity of requisite software licenses	Software licenses and internet service secured; adequate IT hardware provided	in 1 year	
	AFMIS Cluster	Develop and operationalize AFMIS systems (collection, updating, processing, storage, transmittal, dissemination)	AFMIS operational	initial system in 1 year; expansions continuing	
	AFIS	Regularly survey users to increase AFMIS usefulness	survey results addressed	continuing	
Key Lever or Agenda	Responsible Agency(ies)	Implementing and Complementary Action	Output Indicator	Time Frame	Impact
Implement the PVP Law	DA	Organize, staff and equip PVP Office	plantilla proposed, approved and filled; budget specified	in 1 year	high
	President PVP Board	Appoint permanent Registrar	Registrar appointed	in 1 year	
		Approve office procedures and protocols	Office procedures and protocols institutionalized	in 6 months	

	PVP Office	Organize technical support groups	technical support groups organized; SO issued	in 6 months for 5 priority crops; continuing to accommodate other crops	
	DA Finance	Provide budget for database systems and DUS guidelines development	database systems populated and DUS guidelines completed		
Continue development of regulations for biotechnology	BAI, BFAR, FPA, Biotech Project Office	Support regulations drafting	regulations drafted, consulted and issued	continuing	high
		Dialogue with public			
		Address emerging concerns			
		Equip testing laboratories	laboratories equipped staff trained		
Continue staff training					
Address issues in research and extension –see paper on R&D	DA, DOST, DENR	Improve coordination structures	Committees created; MOAs forged; legislation enacted	Committees and MOAs in 1 year; legislation in 2 years	high
	DA, DOST, DENR	Improve allocation systems	New allocation systems institutionalized		
	DA, DOST, DENR	Develop IP protocols for publicly-funded research	IP Protocols consulted and approved, Joint MO issued	in 1 year	
	DA, DOST, DENR	Work with industry	linkages forged	continuing	
Strategic Thrust 6: Improving Access to Land and Credit					
Address issues in land markets - see papers on Agrarian Reform and and Private Investments	NEDA, Congress	Ease restrictions in the transfer of land covered by CARP	Legislation advocated and enacted	in 2 years	medium
	NEDA, Congress	Exempt banks from 5-hectare limit in land ownership	Legislation advocated and enacted	in 1 year	
Key Lever or Agenda	Responsible Agency(ies)	Implementing and Complementary Action	Output Indicator	Time Frame	Impact
Address issues on access to public lands – see papers on	Congress	Extend lease period for public lands	Constitution amended		high

Private Investment and Natural Resources Management	DENR	Tighten performance standards and adopt proper pricing for public lands under lease agreements	DENR AO issued	in 1 year	
Address the gap in financing for small and medium enterprises	NEDA	Ask WB/other donors to assist in developing programs and strategies to correct the financing gap.	TA provided, innovative programs implemented	TA in one year, programs in 3 years	high
	CDA, NCC, BSP	Strengthen regulation and supervision over credit cooperatives	Study completed, regulatory measures advocated, consulted and enabled	Study in 1 year, regulatory measures in 3 years	low
Strategic Thrust 7: Improving LGUs' Capacity to Perform Development Function					
Institutionalize DA-wide technical information assistance services for LGUs	DA OSEC	Task a specific unit in DA operations to accept LGU inquiries and point them to relevant DA office	DA SO Issued	in 6 months	medium
	DA Osec	Task all DA units to prepare relevant information sheets and/or identify information/ liaison officers to address LGU needs			
Address issues on devolution - see paper on R&D and on Infrastructure	NEDA, DILG, Congress	Review LGC to consider: 1) Scale economies in the distribution of responsibilities (i.e. province vs. municipality) 2) Need and performance in the setting of IRA entitlements (e.g. 1st class vs. 5th class)	Study completed; reform advocated; law amendments enacted	in one year	medium
Key Lever or Agenda	Responsible Agency(ies)	Implementing and Complementary Action	Output Indicator	Time Frame	Impact

Strategic Thrust 8: Facilitation of private joint undertaking, contracting, and economic organization					
Develop capacity to research, document, disseminate information, and facilitate economic organization	DA Sec.	Assign to specific DA unit such as agribusiness group	DA SO issued	in 6 months	high
	Assigned DA Unit	Solicit assistance of involved players in documentation of experiences –see successful models in papers on private investments and rural finance	Fora organized and papers presented	in 1 year and regularly thereafter	
	Assigned DA Unit	Regularly organize fora to share lessons among current and potential players	Fora organized and papers presented	in 1 year and regularly thereafter	

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