Private Sector Investments and Rural Growth

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Some sections of the Report draws from Gilberto Llanto (2005), Post-Reform Situation of the Rural Financial Markets, Policy Gaps and Recommendations.

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EXECUTIVE SUMMARY

1. Investment drives economic growth. The experience of Asian countries shows a high correlation between investment and economic growth: the higher the "investment intensity" (gross investment to GDP ratio), the higher the economic growth. More important, investment creates jobs. Therefore, promoting investment is a strategic imperative for rural development.

2. This report has a four-fold objective, namely, (a) analyze the Medium Term Philippine Development Plan (MTPDP) targets relating to agriculture and agribusiness; (b) analyze the factors affecting the investment climate; (c) provide specific case studies based on Mindanao experience; and (d) formulate action plans to promote investments.

3. The report will answer the hypothesis: **the investment climate impedes private investment.** The investment climate is defined as the mix of quantitative and qualitative elements that attracts or repulses private investments. They include: macroeconomic stability, represented by inflation rate, forex rate and budget deficit; corruption and rule of law; constitutional provisions and foreign ownership; and project area specific concerns: land access, infrastructure, law and order, local governance, access to long-term financing, etc. The report methodology included a review of relevant literature including World Bank reports; key informants interviews; and limited field visits to Mindanao.

The MTPDP targets on agriculture/agribusiness

4. The agribusiness focus of the MTPDP is sound given the backward and forward linkages of agriculture as well as the need to generate more returns from land. The MTPDP targets some 2.05 million ha of new lands and 1.26 million ha of existing lands for agribusiness development. These are expected to generate 2.8 million and 0.47 million jobs, respectively. The targets for new lands were later revised to 1.85 million ha and 2.60 million jobs, respectively (as of January 18, 2005). Job creation will pose a tremendous challenge in the light of the global and domestic environment. Meanwhile, the DA estimates at least P100 billion for private sector investments from various stakeholders in the next six years, 2004-2010.

5. Private sector participation will be crucial in achieving development and job creation targets. At macro level, private investments account for almost **80** percent of total gross investments. (Some sectors claim up to 87 percent in 2003). Thus, public investment, though important and complementary, is not far-reaching enough. There is therefore, a critical need for a sound investment climate for the private sector to buy in into the Plan.

6. The MTPDP Agribusiness targets are challenging from many angles:

   (a) The need for a sound market justification of the targets.

(b) Marketing, promotion and supply chain organization – critical elements-need to be well articulated.

(c) The employment targets appear a tall order compared to the past record; and

(d) The central role of the private sector can be explained better.

The details of these need not be in the MTPDP but can be explained in another document. The DA is reportedly working on this concern.

Factors affecting the investment climate

7. An investor is both a risk-taker and risk-minimizer. Her screening criteria are not simple. S(he) parts with her money in expectation of long-term returns, higher than what s(he) can get from "risk-free" Treasury bills or bonds. In a developing country, investors face tough hurdles and these can increase her risk. The role of government (for the common good of society) is to encourage existing investors to spend more, and for new investors to part with his money. If the former do not invest, it is difficult for the latter to lead. Returns can be long depending on the type of investment.

BARRIERS TO PRIVATE INVESTMENTS
(Not in the order of importance)

FACTOR	DETAILS
1. ACCESS TO PUBLIC LANDS	• 60:40 domestic ownership (Section 2, Chapter XII of the Constitution)
	• 25 + 25 years of lease (Section 2, Chapter XII of the Constitution)
	• Tenurial instruments limit on crop mix
	• Frequent changes in forestry policies
2. ACCESS TO PRIVATE LANDS	CARP provisions on:
	• Land ownership ceiling
	• Transferability and holding period
	Uncertainties of slow CARP implementation
	Effects of the above on land consolidation and collateral value of agricultural lands
3. INFRASTRUCTURE	• Construction and maintenance of access infrastructure (roads and bridges from farm areas to barangay center to trade center to port)
	• Availability production infrastructure: irrigation, water supply, and reliable power.
	• Quality of infrastructure (related to regular and periodic maintenance)
4. LOCAL GOVERNANCE	• Limited development outlook of LGU officials
	• Misuse of IRA
	• Lack of cost-sharing by LGU in infrastructure and agriculture projects

	• The need for continuity of local policies inspite of frequent elections
5. ACCESS TO LONG-TERM FINANCING	• Limited supply of loans for long gestating projects
	• Lack of appropriate on grace and repayment periods
	• No capitalization of interest during the crop gestation period.
6. GLOBAL MARKET ACCESS	• Non-tariff barriers on export of banana and pineapples to some countries
	• Discriminatory tariffs on export of canned tuna to EU
	• Lack of bilateral fishing rights to support domestic tuna industry (Palau, PNG, FSM, and Kiribati – all Pacific countries)
7. PEACE (LAW) & ORDER	• Perceived risk to life and property
	• Theft of agriculture produce and inputs
	• Tolerance of local officials of lawless elements
8. CORRUPTION	• Irregular payments to various government agencies
9. CONTRACTS & LAW	• Favoritism in decision of government officials • Judicial independence • Property rights • Organized crime

Source: Dy, Rolando (2004). Rural Growth Revisited. Mindanao Component. Working Paper. Processed:
Dela Pena, Umali, and Mercado (2004)
World Economic Forum (2004).

8. For the planned investments to come into fruition, the investment climate must be improved by addressing the barriers. Priority must also be given to earnestly addressing the corruption and developing an investment environment that respects contracts and rule of law.

Recommendations and Action Plans

9. Based on the results of the analyses, the report recommends the following:

(a) Revisit the targets based on market prospects;

(b) Revisit how supply can be increased by area or yield expansion, or both;

(c) Articulate how marketing and supply chain management will address the supply increases;

(d) Elaborate the role of the private sector investments; and

(e) Address the factors that affect the investment climate and a plan on how to resolve them.

10. As private investments account for almost four-fifths of total investments, economic growth in general, and rural growth in particular will greatly depend on the private sector. A private sector that has positive future expectations will part with their funds but they must be helped in ensuring a sound investment climate. The action plans indicate how the barriers to private investments can be addressed.

ACTION PLAN

11. The action plan matrix covers strategic thrusts, actions, outputs, time frame and impact. Implementation of these actions is expected to significantly improve the investment climate in the rural sector. There are nine strategic thrusts:

(a) Improve public land access;
(b) Make CARP investment-friendly;
(c) Create a sound investment climate for forestry;
(d) Improve local governance to spur investments;
(e) Improve access to long-term financing;
(f) Expand fishing access in the Pacific;
(g) Expand international market access for agricultural/fishery products; and
(h) Push for Mindanao peace.

In addition: there must be a concerted effort at the national and local level to curb corruption, as well as promote the rule of law and respect of contracts.

Improve public land access

12. The Philippines is no longer a land rich country. The lowlands and the uplands are settled. However, large areas are underutilized, under subsistence farming, or idle. They are in dire need of private investment. As a result, large tracts of lands are not productive; they are not creating jobs. Among the potential investments are tree crops but these need investors with large pockets, a scarce resource in this country. There are several impediments: two are constitutional and one legal.

13. The Philippine Constitution contains two provisions, although well-meaning, which have stymied private investments and job creation in the countryside. The first is the foreign ownership limitation on the exploitation of natural resources, particularly in forest plantations. While reserving public lands for Filipinos appears noble, Filipino investors failed to pour resources in long-gestating projects because of lack of capital, and little access to long-term financing. Another provision applies to all investors: the limits to leases of public lands to only 25 years, renewable for another 25 years. This is inadequate for two cycles of rubber, three cycles of oil palm, and perhaps just enough for one cycle of hardwood trees, By contrast, in neighboring Asian countries investors (domestic and foreign) can buy lands or lease land up to 99 years.

14. The private sector must advocate for constitutional change. There are serious impediments in the Constitution which hurt the economy and the goals of job creation and poverty reduction. There are no viable options in sight.

Make CARP Investment Friendly

15. The comprehensive agrarian reform program (CARP), despite its critics, has made significant advances in assets reform. Millions of landless tenants and farm workers have

been given lands. However, the implementation delays and CARP provisions have distorted land markets, reduced the collateral values of lands and, in turn, stymied investments and job creation. Among the provisions include: CARPed lands can only be transferred to qualified beneficiaries ten years after full payment. If there are buyers or mortgages, they are still subject to the land ownership ceilings of five hectares (seven hectares for rice and corn lands distributed under the Marcos land reform in the 1970s). As a result, banks cannot warehouse lands beyond five or seven hectares. Given the jobs targets of the MTPDP, the need to free land markets is imperative.

Create a Sound Investment Climate in Forestry

16. In principle, the DENR is the largest land agency in the country. It controls over 15 million ha of public lands, including production forests. This mandate can be made to spur investments or it can impede them. The many changes in forestry policy over the last two decades have led to a negative investment climate in forestry. DENR must focus on its development role and downplay its regulatory role. One example is the limit on planting non-timber species on integrated forest management agreements (IFMA) areas even if these are market-driven and ecologically suitable. Today, DENR allows only up to 20% plantings of tree crops in IFMA lands. This policy has to change.

Improve Local Governance

17. Many local governments have good potentials for agribusiness investments. However, local governance leaves much to be desired. Scarcity of resources, inspite of IRA, in 3rd to 6th class municipalities is widespread. As a result, good LGUs are unable to build access infrastructure (farm to market roads) and production infrastructure (e.g. water reservoirs in farm areas). This is a chicken and egg situation. If development has to happen and jobs be created, external resources must be tapped. However, these poor LGUs are not bankable, and if they are, resource flows could be limited. It is vital that good LGUs must be rewarded in terms of grants for sound projects. This is a signal that the ODA community appreciates good governance with their resources.

18. While there are constraints to investments, there are also success stories as exemplified by the experience of Mindanao. A key success factor is the role of LGUs as development champions as exemplified by Datu Paglas in Maguindanao, Impasugong in Bukidnon, in Socksargen, Davao and Northern Mindanao regions in general. Good infrastructure and peace help. In Paglas, it showed that investment can promote long-term peace and political stability; that one of the most effective ways in which to achieve peace and stability is, in fact, through mainstream commercial investment. Other key success factors are contract growing schemes in banana, and oil palm, market-led plantings of seaweeds, value adding in tuna, sustained private sector role in R &D, and joint government-private sector advocacies for global market access.

Improve Access to Long Term Financing

19. Access to financing tree crops such as rubber, oil palm and fruit trees are scarce in the country. Large plantations in the past were funded by foreign equity and bank loans. After CARP, land holdings have become small. Large estates have been distributed to farmworkers, and lessor-lessee arrangements took its course. Smallholders need financing for long term crops with sound markets and technologies. Today, only Land Bank has the resources to expand long-term lending but must improve project appraisal capability. Land Bank should also look into the possibility of using official development assistance (ODA) funds as a source of long-term finance for long-gestating crops.

Expand International Market Access for Agriculture/fishery Commodities

20. Investors look at the global and domestic markets in its project studies. Given its low per capita income, the Philippine market has a relatively narrow base of high income consumers for quality products. There is no such constraint in the global arena as long as the product is competitive in terms of cost, quality and reliability.

21. Canned tuna exports face from ASEAN countries like the Philippines tariff and non-tariff barriers in certain regions and countries. Canned tuna faces a 24% duty in EU compared to zero duty for ACP countries. The EU granted a small lower tariff quota of 25,000 tons in 2002 and it expires in mid-2005. The ASEAN, particularly the Philippines as lead, desires bigger volume at the low tariff quota.

22. On the other hand, the export of Philippine banana to Australia faces rough times because of intense lobbying by its high-cost banana industry. Australia has used import pest risk analysis as a weapon for protection. The Philippines has brought the matter to WTO on October 17, 2001.

Push for Mindanao Peace

23. Mindanao occupies about 34% of the land area and almost 40% of the agricultural lands. It is also the main agribusiness center and a food basket of the country. Much of the country's competitive exports – banana, pineapple, rubber, seaweeds and tuna – come from the region. Mindanao is a strategic piece of real estate. Its potential is immense in agribusiness, aquaculture and food processing. Peace dividends will make Mindanao an even better investment destination. Moreover, much of ARMM lands are underdeveloped and the region hosts among the most fertile lands of the nation.

Curb Corruption

24. The ADB Report (2004) indicated that a system of lifestyle checks alone would not be adequate to combat corruption. It proposes:

(a) Simpler and more transparent regulations;
(b) Stricter implementation of the penalty system for non-compliant taxpayers and tax collectors accepting bribes; and

(c) The political will and resolve to implement the required policies and civil service reforms.

ACTION PLAN MATRIX

Action Plan Matrix					
Key Lever - or Agenda	Responsible Agency/Agencies	Initial Actions	Output Indicator	Time Frame	Impact
Strategic Thrust 1: Improve Public Land Access					
Amend Constitution	The President convenes Congress as Constituent Assembly, or calls for election of delegates for Constitutional in 2007 **Private Sector**: Philippine Constitution Association (Philconsa) (Lead) Business Consortium: -Philippine Chamber of Commerce and Industry (PCCI) -Management Association of the Philippines (MAP) -Financial Executives of the Philippines (FINEX) -Mindanao Business Council (MBC)	(1) establish action group (2) identify interest groups Legislature Professional Associations (3) prepare advocacy papers – including anti-advocacy analysis	(1) Passage of amendment to Section Chapter XII (a) Allow majority foreign ownership (b) Extend leases on public lands to 99 years from 50 years (25 +25 years) (2) implementation of amendment	Medium to Long Term	High

Strategic Thrust 2: Make CARP Investment Friendly					
Amend agrarian reform law	Legislature Private Sector Lead: Philippine Chamber of Commerce and Industry	(1) establish action group (2) identify interest groups Investors Landowners Beneficiaries (3) prepare advocacy papers – including anti-advocacy analysis	(1) Passage of amendment (a) no land ceiling for lands already covered by CARP (b) no ownership limits for Banks and natural juridical persons for lands already CARPed (c) no limits on transferability when land is fully paid (2) Implementation of amendment	Medium to Long Term	Medium to High
Strategic Thrust 3: Push for a Sound Investment Climate in Forestry					
Amend DENR regulations	DENR Lead: Philippine Wood Producers Association (PWPA)	(1)Draft policy framework (2) Draft AO that will allow larger areas for plantings of non-timber species in IFMA and similar instruments	(1) Issuance of DENR Administrative Order allowing plantings in IFMA of non-timber species up to 90% subject to ecological criteria., and allowing non-timber species in pasture lands if suitable (2) Implementation of the AO	Short -Med	Medium to High
Strategic Thrust 4: Improve Local Governance to Spur Investments					
Reward development-oriented LGUs	World Bank ADB	(1) Draft framework paper (2) Elicit support from ODA community	(1)Identify top 100 progressive LGUs identified (3rd to 6th class municipalities) (2) Establish screening criteria (3) Creation of $10 million grant fund for LGU infrastructure projects	Short to medium term	Medium
Strategic Thrust 5: Improve Access to Long-term Financing					
Improve Land Bank's capability to evaluate long-term projects and explore other sources of funding	Land Bank	(1) Draft advocacy paper (2) Explore possible use of ODA funds as financing source (3) Land Bank Board meets with experts	(1) Creation of a task force at headquarters to assist field units and conduit banks in project evaluation	Short to medium	Medium
Strategic Thrust 6: Expand fishing access in the Pacific					
Generate bilateral agreements	Department of Foreign Affairs Department of Trade & Industry	Draft Strategic Paper (1) Engage Pacific countries: Palau, Federated States of Micronesia, Vanuatu, etc	(1) Number of Fishing agreements signed	Short to medium	Medium

	Private Sector Lead: -National Tuna Council -Socksargen Federation of Fshing Assn				
Strategic Thrust 7a: Expand international market access for agricultural/fishery commodities					
Increase low tariff quota for canned tuna in the EU	Department of Trade and Industry Private sector lead: Tuna Canners Association of the Philippines (TCAP)	(1) Pursue negotiation for increased quota soon (EU will automatically extend quota for one year at same volume unless a revision is adopted not later than March 31, 2005)	(1) Agreement to expand low tariff quota for ASEAN canned tuna from 2005 onwards form a base of 25,000 tons.	Short	Medium
Strategic Thrust 7b: Expand international market access for agricultural/fishery commodities					
Lobby for entry of Philippine banana to Australia	Department of Trade and Industry Department of Agriculture Private Lead Philippine Banana Growers and Exporters Association (PBGEA)	(1) Follow up WTO complaints file against Australia for non-tariff barriers.	(1) WTO considers Philippine position (2) WTO issues judgment.	Medium	Medium
Strategic Thrust 8: Push for the peace in Mindanao					
Push peace agreement with Government and MILF	Government Presidential Adviser for Peace Process	(1) Sustain peace negotiations (2) Sustain engagement of the International Monitoring Team	(1) Peace pact forged (2) Joint need assessment of conflict affected areas (CAAs) completed. (3) Development projects started in CAAs.	Short to medium	Medium

Strategic Thrust 9: Curb corruption					
Institute changes for policy transparency and penalties for wrong doers	Executive Legislature Judiciary Office of the President (Lead)	1)Simplify and make transparent national and local regulations; 2) Stricter implementation of penalty for offenders; 3) Political will to implement policies and civil service reforms	1) Number of offenders penalized, and dismissed from government service 2)Amount of illegal assets seized 3) Improved ratings in the Global Competitiveness Report	Short to medium	High

1. BACKGROUND AND RATIONALE

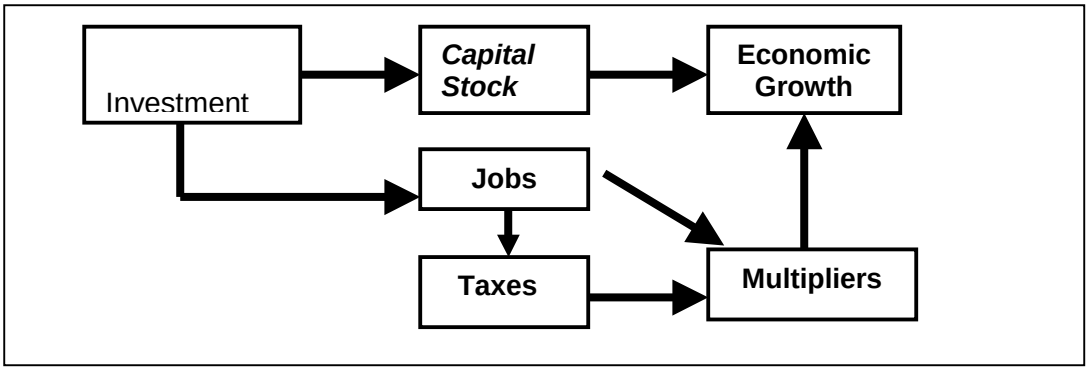
1.1 Investment adds to a country's capital stock – better known as productive capacity. Capital stock can be in the form of buildings, machineries, breeding stock, tree stock as well as infrastructure. It is capital that produces for the three main sectors: agriculture, industry and services. In no uncertain terms, the more sustained the investments, the better it is for the economy. By contrast, limited investment or lack of it is a sure way to economic stagnation. Given the inter-linkages among the sectors particularly for agriculture, the performance of one sector will have repercussions (or impact) on the other sectors.

> It is capital that is the source of increasing productivity and therefore wealth of nations
>
> *– Hernando de Soto (2000). The Mystery of Capital.*

1.2 Investments are almost always in the form of projects undertaken by either the public or private sector (i.e. businessmen, farmers and fishers, and civil society organizations). Private investments are funded by domestic (retained earnings, new equity and loans) and foreign resources (equity, suppliers credit, and loans). Projects can be expansion, innovation, or rehabilitation. They are results of general or specific opportunity studies (Behrens and Hawranek, 1995).

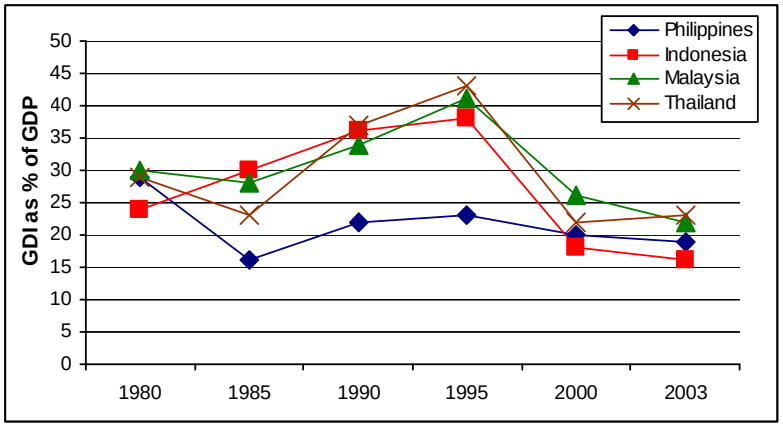
1.3 Investments are crucial as they have several strategic roles. First, investment adds to capital stock and/or improves its quality. In turn, it improves not only the country's productive capacity but also its competitiveness. Second, investment creates jobs and incomes. The latter cascades into the economy through multiplier effects. By contrast, the lack of investment leads to deterioration of the capital stock and its obsolescence and the loss of corporate or national competitiveness.

Figure 1.1. Investments-Economic Growth-Job Linkages



1.4 Asian economic growth can be explained by many factors. However, experience suggests a high correlation between investment and economic growth. The higher the "investment intensity" (gross investment to GDP ratio), the higher the economic growth.

Figure 1.2. Gross Domestic Investment as Percent of GDP



Source: World Bank, World Development Report, various years

1.5 Among the six "competing countries," the Philippines has the lowest investment to GDP ratio. By contrast, China, Malaysia, and Thailand have relatively high ratios.

1.6 Investment drives economic growth. In the past ten years, 1994-2003, the Philippine economy grew by 3.9 percent annually, a moderate performance compared to its ASEAN neighbors in the main because of slow investment growth. There was a Php315 billion increment in GDP at constant prices over the past decade. During the same period, the gross domestic investments recorded a 2% average annual increase, or a total of Php2,028 billion over a decade. This meant that it took more than Php6 of investments to generate every Php1 of additional GDP over the ten-year period.

Table 1.1. Gross Domestic Product (GDP) and Gross Domestic Investments (GDI), 1993-2003, at constant 1985 prices, in billion pesos

Investments influence GDP Growth…

Year	GDP At constant prices	GDP At current prices	GDI At constant prices	GDI At current prices	Share to GDP, at constant prices in %
1994	766.4	1,692.9	180.8	407.4	23.6
1995	802.2	1,906.0	187.1	427.9	23.3
1996	849.1	2,171.9	210.4	521.6	24.8
1997	893.2	2,426.7	235.0	601.2	26.3
1998	888.0	2,665.1	196.8	542.1	22.2
1999	918.2	2,976.9	192.9	558.2	21.0
2000	958.4	3,308.3	203.6	607.6	21.2
2001	989.3	3,640.0	206.3	640.0	20.8
2002	1,034.4	3,977.4	205.0	662.2	19.8
2003	1081.5	4,299.9	210.6	715.3	19.5
Average annual growth rate	3.9%	-	2.0%	-	na
Incremental Growth 1994-	315.1		na	Na	na

2003					
Total 1994-2003	9,180.7		2,028.5		22.1
ICOR	na		6.44	Na	Na

Source: National Statistical Coordination Board (NSCB)

1.7 The incremental capital output ratio (ICOR) of the Philippines for 1994-2001 appeared well compared to that of Indonesia, Malaysia and Thailand. The three countries posted declines in capital formation during the period even as they posted growth. However, the investment data must have been unduly influenced by the severe Asian crisis, or there were heavy investments in speculative property assets for some countries.

Table 1.2. Comparative GDP and GDI Growth and ICOR for Selected Asian Countries, 1994-2001

Country	GDP growth	GDI growth	ICOR
Philippines	**3.7**	**2.3**	**7.2**
Indonesia	2.4	(1.1)	13.0
Malaysia	5.0	(0.2)	8.4
Thailand	2.3	(2.5)	17.3

Note: Growth at constant prices. GDP and Gross Capital Formation for Indonesia, Malaysia and Thailand deflated using GDP deflator.

Source of basic data: International Financial Statistics (except Philippine data – from NSCB)

1. 8 Gross Domestic Investments (GDI) comprises primarily durable equipments, and construction. In the Philippines, a category called breeding and orchard development is included. It is an aggregate measure of investment. GDI is a measure of annual addition to the stock of *economic* capital. *Economic* is emphasized as in economics; capital is defined as assets that will produce output such as machineries and raw materials. This is in contrast to financial assets. According to a UA&P economist, in the Philippines, the private sector contributes nearly four fifths (78 percent) of the total (one estimated indicates 87 percent in 2003). This means in 2003, the private sector spent about Php636.5 billion at current prices, or about Php460 billion *annually* in nominal terms over the decade. There is no breakdown by sector, and this is unfortunate.

1.9 A comparative study of productivity in East Asia shows that the Philippines lag behind in total factor (or multi-factor) productivity. The record spanning almost four decades shows at best stagnant productivity growth. The major difference is not in education but in the very dismal productivity of physical capital (See Table 1.3 and Box 1.1). This can be attributed to the growth and quality of investment and perhaps the quality of maintenance of capital.

Table 1.3. Overall Growth Contribution, East Asia, 1960-1996

In percent annually

Country	Total Factor (Multi-factor) Productivity	Education	*Physical Capital*
Philippines	**-0.4**	**0.4**	**1.0**

China	2.7	0.6	1.8
Indonesia	0.9	0.5	2.0
Korea	1.5	0.8	3.2
Malaysia	1.1	0.4	2.4
Taiwan (China)	2.0	0.6	3.1
Thailand	1.0	0.3	2.7

Source: Updated Data from Bosworth and Collins (1999)

Taken from Macaranas, F (2004), Quality and Productivity in the ASEAN and its impact on the Philippines. AIM Policy Center.

1.10 Another observation was that Philippine economic growth was fuelled more by consumption than by investment (Box 1.1). Consumption contributed 86 percent of total growth during 1991-2003. According to economists, a consumption-led growth is not sustainable.

Box 1.1

THE PHILIPPINE GROWTH HAS BEEN CONSUMPTION DRIVEN…

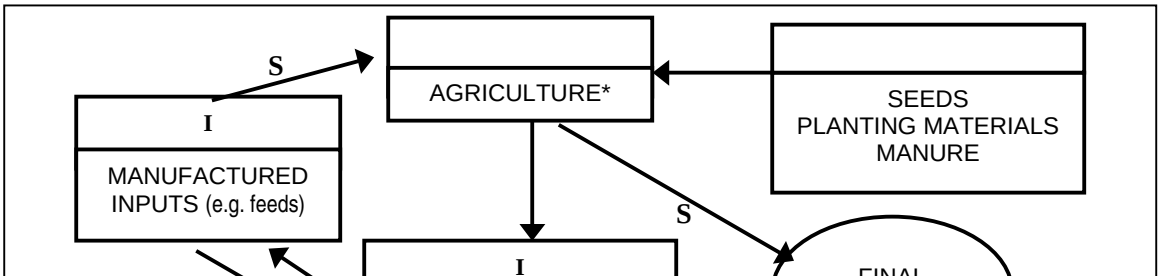
Growth has been driven largely by consumption. The contribution of consumption to growth has been among the highest in the region from 86 percent of the average growth during 1991-2003. By contrast, the share of investment to growth was among the lowest in the region. Philippine output per worker was up by only 50% between 1961 and 2003 compared to 450% in other East Asian economies. This was not due to differences in educational attainment or human capital but to lower physical capital accumulation and productivity growth. The total factor (or multi-factor) productivity growth in the Philippines is slightly negative. Capital accumulation was only one-third of East Asia

Source: Bosworth and Collins (1999) Updated.

Agriculture Performance

1.11 The impact of agriculture on the Philippine economy is not well appreciated. Agriculture directly accounts for close to a fifth of the total economy but if the indirect linkages are considered (i.e. the backward and forward linkages, or the cluster universe), the contribution can reach three fifths of the economy. In one study using the input-output table, it was found that for every Php1 increase in agriculture production, there is a corresponding Php1.32 increase in non-agriculture production (Terosa, 2002). Meanwhile, the sector directly employs about 11 million people or nearly 40% of the labor force. This excludes those employed in input supply and logistics, output logistics, agri-food processing, wholesaling, retailing, etc.

Figure 1.3. Inter-Sectoral Linkages



**includes fisheries & forestry*
LEGEND:
A – Agriculture/Farm Production
I – Industry/Manufacturing, etc.
S – Transport, Storage, Comm., Finance, etc.

1.12 Rice is the biggest industry with 16% of total agricultural production value at constant prices in 2003. Surprisingly, the next in line are chicken (11.6%) and hogs (11.4%). In distant fourth and fifth are coconut (7.8%) and corn (5%). Aquaculture (10%) is large but this comprises three principal products (seaweeds, bangus and tilapia).

1.13 During the past ten years (1994-2003), the real gross value added in agriculture, fishery and forestry grew by 2.6% annually. The drivers were mostly the non-land-based agriculture - poultry, livestock and fisheries and aquaculture. Interestingly, these sectors were mostly demand-driven and private sector-led. Private investments have expanded in these subsectors.

Table 1.4. Agriculture Growth by Subsector, 1994-2003

Percent per year

Subsector	1994-2003
Crops	1.9
Livestock	4.2
Poultry	5.2
Agri. Activities and Services	1.0
Fishery	3.4
GVA IN AGRI AND FISHERY	**2.7**
Forestry	5.6
GVA IN AGRI, FISHERY AND FORESTRY	**2.6**
Memo Items:	
Palay	3.8
Corn	0.6
Coconut	1.9
Sugarcane	2.1

Banana	6.3
Other Crops	1.1

Source of basic data: National Statistical Coordination Board (NSCB)

1.14 For the first nine months of 2004, the sector has already expanded by 6.8%, more than double the 3% growth during the comparable period last year. The full-year growth is projected at 4-5%, to be driven by palay, corn, and sugarcane, and aquaculture.

Contributions to Growth

1.15 Where did the past growth come from? Crops, where most of the farmers are, contributed only over a third of agricultural growth between 1994 and 2003. Palay contributed 18 percent, or about half of crops growth. While rice contributed less than 20 percent to growth, experts estimated that they account for about two-thirds of DA spending. By contrast, the bulk (68 percent) of the agricultural expansion, however, was fueled by the non-crop subsectors where government financial support was far less. Poultry and livestock accounted for 40% of total growth, and fishery for 27%.

1.16 For crops, the leaders were rice, banana, mango and calamansi. By contrast, the laggards include coffee, tobacco, abaca, peanut, cassava and camote.

2. APPROACH AND METHODOLOGY

2.1 Knowing that the promotion of private investments is primordial to economic growth, the report will answer the hypothesis: **the investment climate impedes private investment.** Investment climate is defined as the mix of quantitative and qualitative elements that attracts or repulses private investments. They include: macroeconomic stability, represented by inflation rate, forex rate, budget deficit; constitutional provisions and foreign ownership; and project area specific concerns: land access, infrastructure, law and order, local governance, access to long-term financing, etc

2.2 The methodology will be simple:

(a) Review of relevant literature, including World Bank reports;

(b) Key informants interview; and

(c) Limited field visits to Mindanao.

2.3 Chapter 1 discussed the Background and Rationale. Chapters 3 to 5 will provide in-depth discussions of the issues. Chapter 3 is the Strategic Analysis of the MTPDP targets in agribusiness that includes discussions of the World Economic Forum Business Competitive Index as well as related reports. Chapter 4 will cover the Barriers to Private Investments. Finally Chapter 5 will be the Action Plan. This will cover the strategic thrusts and the key levers needed to achieve them, the actions to be taken by whom, the indicators for success and the time frame.

Figure 2.1 Report Framework

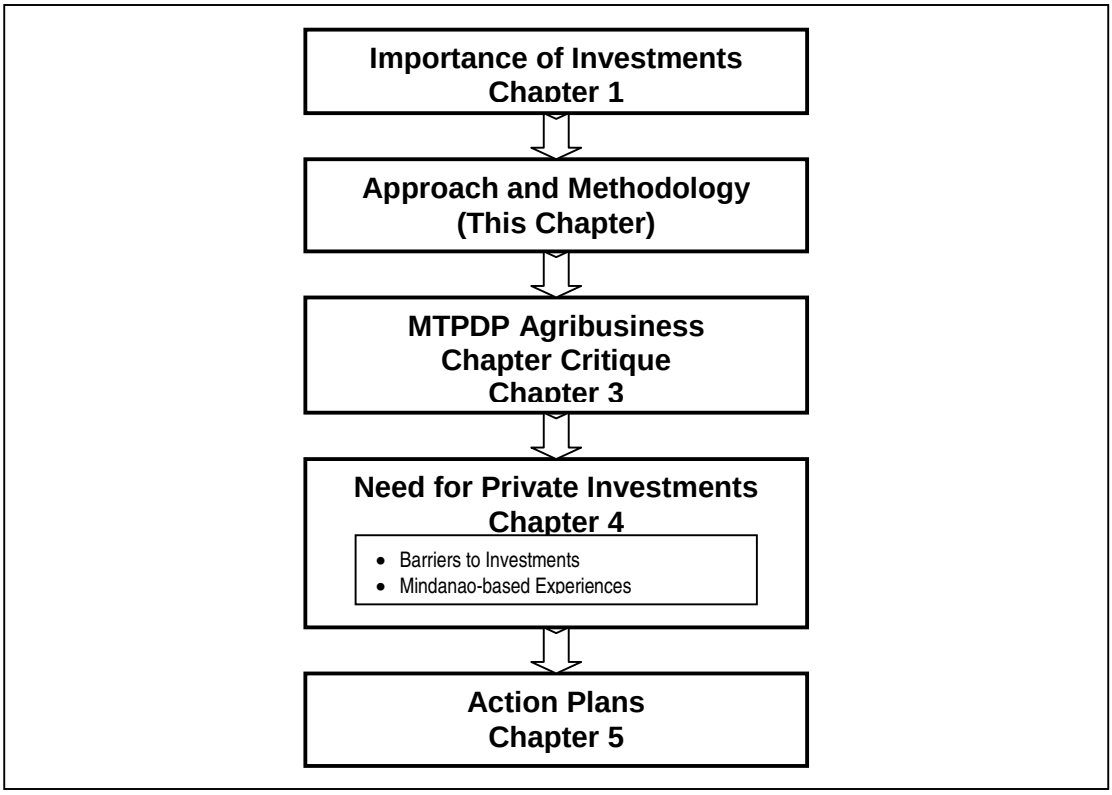


Table 1.5. Contributions to Agriculture Growth Analysis, 1994 and 2003

Percent share to total growth

Subsector/Commodity		1994-2003
Crops		35.6
Livestock		19.9
Poultry		20.4
Agri. Activities and Services		1.6
Fishery		27.2
Forestry		-4.6
GVA IN AGRI, FISHERY AND FORESTRY		100.00
Memo Items:	*Harvested Areas (000 ha) in 2003*	
Palay	4,006	18.4
Corn	2,410	0.5
Coconut	3,214	2.3
Sugarcane	389	0.9
Banana	410	8.7
Mango	155	8.3
Pineapple	48	1.2
Coffee	132	(0.7)
Rubber	80	0.7

Source of basic data: NSCB; Bureau of Agricultural Statistics

1.17 When President Gloria Macapagal-Arroyo was given a fresh mandate in June 2004, she outlined a 10-point agenda for national development through 2010. Of particular concern to agriculture is the need to "develop at least 2 million hectares of new land for agribusiness within the next six years in order to create at least two million jobs out of the target of 10 million jobs." This goal became one of the two principal goals for agribusiness in the recently published Medium-Term Philippine Development Plan, 2004-2010. (Some sectors have expressed the view that it is a tough target given the long-term decline of agriculture employment to total employment.) The other goal is to "make food plentiful at competitive prices where the cost of priority "wage goods" such as rice, sugar, vegetables, poultry, pork and fish, and other important non-wage goods like corn must be reduced." These goals will drive industry directions in 2005 and onwards to 2010. Government programs are now being re-aligned to make them responsive to these goals.

1.18 This report will focus on the role of the private sector in investments and job creation in relation to the following targets under the MTPDP 2004-2010.

(a) Development of 2 million hectares of agribusiness lands; and
(b) Creation of almost 3 million jobs in agriculture.

Report Objectives

1.19 The Report will have the following objectives:

a. Analyze the MTPDP targets relating to agriculture and agribusiness;
b. Analyze the factors affecting the investment climate;
c. Provide specific case studies based on Mindanao experience; and
d. Formulate action plans to promote investments.

3. STRATEGIC ANALYSIS OF THE MTPDP TARGETS

3.1 Economic development requires both a government capable of directing or supporting a major growth effort and a people who can work effectively in and manage the enterprises and other organizations that arise in the course of development (Gillis, Perkins, Roemer and Snodgrass, 1983). Certainly, there are two key actors: a government (national and local) that would provide an environment for investments; and investors that build the capital base of the nation, which, in turn, create jobs and incomes.

3.2 A World Bank study (1993) found that in high performing Asian economies, high growth was achieved by getting the basics right. **Private domestic investments** (underscoring by the author) and rapidly growing human capital…. Agriculture, while declining in relative importance, experienced rapid growth and productivity improvement.… Fundamentally sound development policy was a major ingredient in achieving rapid growth**.** Macroeconomic management was unusually good and macroeconomic performance unusually stable, providing the essential framework for private investment (World Bank, 1993).

THE PHILIPPINE POSITION IN THE GLOBAL ARENA

3.3 Competitiveness has become a key concern for countries, foreign investors, institutional investors etc. The World Economic Forum (WEF) based in Switzerland publishes the annual Global Competitiveness Report, a document of worldwide distribution that ranks over 100 countries. The WEF defines competitiveness as "the set of institutions, policies and factors that set the sustainable current and medium term levels of economic prosperity." In the past, the WEF used two measures or indexes of competitiveness: the growth competitiveness index (GCI) and the business competitiveness index (BCI). The former captures the macroeconomic determinants of productivity while the latter, the microeconomic influences. Recently, however, the WEF added a new index called the global competitiveness index, as a unified approach to capturing both the macroeconomic and microeconomic components of competitiveness including their static and dynamic influences.

The Growth Competitiveness Index

3.4 The GCI consists of three widely accepted "pillars" which are considered crucial to economic growth. These include the quality of the macroeconomic environment, the state of a country's public institutions and the state of a country's technological readiness. These "pillars" are translated into corresponding indexes – **the macroeconomic environment index, the public institutions index and the technology index.** These indexes are given equal weights for countries which are considered as non-core economies (or those that can still grow by adopting technologies developed abroad) such as the Philippines and other developing and least developed countries.

3.5 Comparing ASEAN nations and China, the Philippines ranked poorly in two fronts: current rankings; and the record over the last five years. The Philippines ranked No. 76 out of 104 countries in 2004, a notch above Vietnam at

No. 77. However, the changes between 2000 and 2004 are telling**: the Philippines slipped 40 ranks from No. 36 to No.76.** By contrast, Thailand fell by only 4 ranks, China 6, Malaysia 7, Vietnam 25, and Indonesia 26. The dismal slippage is a cause of great concern for the country's leaders. It appears that many other countries have improved their investment climate and the Philippine authorities should be worried, according to an international observer.

Table 3.1. Growth Competitiveness Index Rankings of Selected Asian Countries, 2000-2004

	2000	2001	2002	2003	2004	Rank Change 2000-2004
Singapore	2	4	4	6	7	-5
Malaysia	24	30	27	29	31	-7
Thailand	30	33	31	32	34	-4
China	40	39	33	44	46	-6
Indonesia	43	64	67	72	69	-26
Philippines	**36**	**48**	**61**	**66**	**76**	**-40**
Vietnam	52	60	65	60	77	-25

Source: World Economic Forum; www.maaw.info

3.6 The Philippine index was pulled down by the dismal showing in the following areas:

- Corruption (Rank: 100 out of 104)
- Government waste (Rank: 90)
- Contracts and law (Rank: 79).

3.7 Two of the sub-indexes - corruption and contracts and law - where the Philippines fared poorly form the public institutions index. The Philippines ranked 99 in this index! Under corruption sub-index, the Philippines (Rank: 100) is 27 ranks below Indonesia – the next lowest in the group (Table 3.1). In contracts and law sub-index, it is similarly 20 ranks below. It is unfortunate but it is felt that the ranking appears too low but the problems exist and continue to persist.

Table 3.2. Growth Competitiveness Index Rankings of Selected Asian Countries, 2004

	Singapore	Malaysia	Thailand	China	Indonesia	Philippines	Vietnam
GROWTH COMPETITIVENESS INDEX RANK	**7**	**31**	**34**	**46**	**69**	**76**	**77**
Macroeconomic Environment Index Rank	**1**	**20**	**23**	**24**	**63**	**69**	**58**
• Macroeconomic Stability Sub-index Rank	1	8	7	5	68	58	23
• Government Waste Rank	1	11	16	30	25	90	68
• Country Credit Rank	18	36	42	35	72	59	68
Public Institutions Index Rank	**10**	**38**	**45**	**55**	**68**	**99**	**82**
• Contracts and Law Sub-index Rank	10	33	45	54	59	79	55
• Corruption Sub-index Rank	7	44	52	60	73	100	97
Technology Index Rank	**11**	**27**	**43**	**62**	**73**	**61**	**92**
• Innovation Sub-index Rank	13	41	37	70	71	48	79
• ICT Sub-index Rank	4	35	55	62	74	72	86
• Technology Transfer Sub-index Rank (out of 73 non-core innovators)		6	4	37	53	23	66

Note: Ranking out of 104 countries

Source: World Economic Forum. 2004. The Global Competitiveness Report, 2004-2005.

3.8 The Philippines failed miserably among various indicators of the two sub-indexes: contracts and law, and corruption among the selected Asian countries. The Contracts and Law sub-index includes: favoritism in decisions of government officials, organized crime, and judicial independence. The Corruption sub-index includes: irregular payments (aka bribery, etc). The country came out badly in the specific indicators: 90 and 94 in favoritism in decision of government officials, and 94 in organized crime, respectively. It was 102 and 101 in irregular payments of imports and tax collection, respectively.

Table 3.3 Benchmarking Public Institutions Index

Score Card of Asian Countries

	Philippines	Indonesia	Malaysia	Thailand	Singapore	Viet Nam	China
A. CONTRACTS AND LAW							
1. Favoritism in decision of government officials	**90**	**24**	**30**	**50**	**7**	**55**	**38**
2. Judicial independence	**74**	**58**	**31**	**44**	**24**	**59**	**61**
3. Property rights	**74**	**67**	**32**	**41**	**12**	**66**	**62**
4. Organized crime	**94**	**81**	**41**	**58**	**4**	**61**	**67**
TOTAL	79	59	33	45	10	55	54
B. CORRUPTION							
1. Irregular payments in exports and imports	**102**	**75**	**47**	**72**	**8**	**100**	**54**
2. Irregular payments in tax collection	**101**	**76**	**39**	**47**	**11**	**97**	**62**
3. Irregular payment in public utilities	**81**	**70**	**56**	**45**	**9**	**91**	**63**
TOTAL	99	68	38	45	10	77	55
GRAND TOTAL	**100**	**73**	**44**	**52**	**7**	**97**	**60**

Source: World Economic Forum, 2004

The Business Competitiveness Index

3.9 A relevant index is the Business Competitiveness Index (BCI). It is a complement to the medium-term, macroeconomic approach of the GCI. Lopez-Claros of WEF (2004) asserts that BCI "evaluates the underlying microeconomic conditions defining the current sustainable level of productivity in each of the countries covered, the underlying concept being that, while macroeconomic and institutional factors are critical for national competitiveness, these are necessary but not sufficient factors for creating wealth. Wealth is actually created at the microeconomic level by the companies operating in each economy. The BCI evaluates two specific areas which are crucial to the business environment in each country: the sophistication of the operating practices and strategies of companies, and the quality of the microeconomic business environment in which a nation's companies compete. The idea is that, without these microeconomic capabilities, macroeconomic and institutional reforms will not bear fruit."

3.10 The BCI ranking is highly correlated with GCI ranking (WEF, 2004). What is interesting is the gap between the two components of BCI: the sophistication of company operations and strategy ranking; and the quality of the national business environment. The former represents the productivity of the domestic companies or foreign subsidiaries in the country and the latter, the environment in which these companies operate. A negative gap can be interpreted as that the business environment ranking is better than the company strategy ranking; a positive gap means the reverse, i.e. company strategy is ranked higher than the business environment.

3.11 The calculated gap (column 2 – column 3) are: for Singapore and Malaysia -5 each, Thailand, -1, Indonesia and China, 7 each, Vietnam, -2 and the Philippines, 22.

The deviation for the Philippines is too large to ignore. It simply means that Philippines companies face a more challenging business environment than their counterparts in Asia.

Table 3.4. Business Competitiveness Index of Selected Asian Countries, 2004

	BCI Ranking (1)	Company Operation and Strategy Ranking (2)	Quality of National Business Environment (3)	Gap (4) = (3)-(2)
Singapore	10	13	8	-5
Malaysia	23	28	23	-5
Thailand	36	35	34	-1
Indonesia	42	37	44	7
China	45	38	45	7
Philippines	**66**	**49**	**71**	**22**
Vietnam	73	75	73	-2
Memo items:				
Taiwan (China)	17	12	20	8
Korea	24	21	27	6
India	29	30	31	1

Source: World Economic Forum. 2004. The Global Competitiveness Report, 2004-2005.

3.12 The Philippines' BCI ranking has deteriorated from 45 in 1998 to 66 in 2004. Performance was pulled down by the increasingly poor rating in terms of the quality of the national business environment.

Figure 3.1. BCI Ranking of Selected Asian Countries, 1998-2004

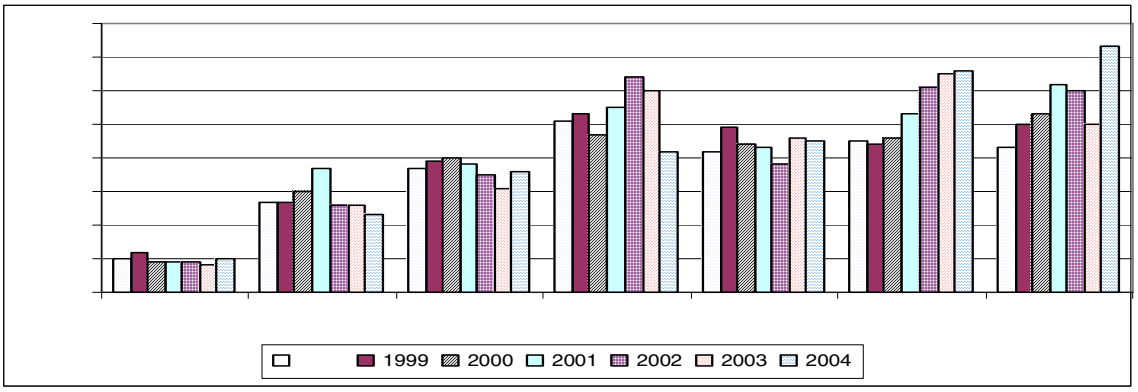
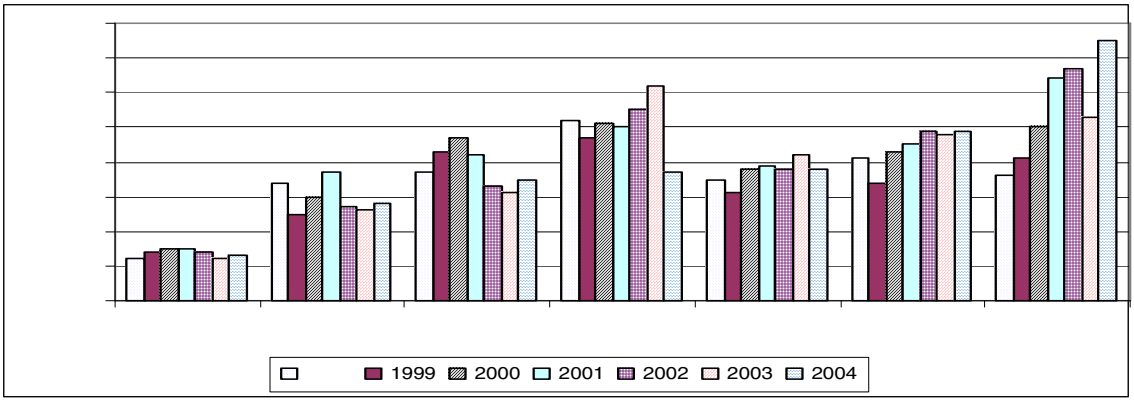
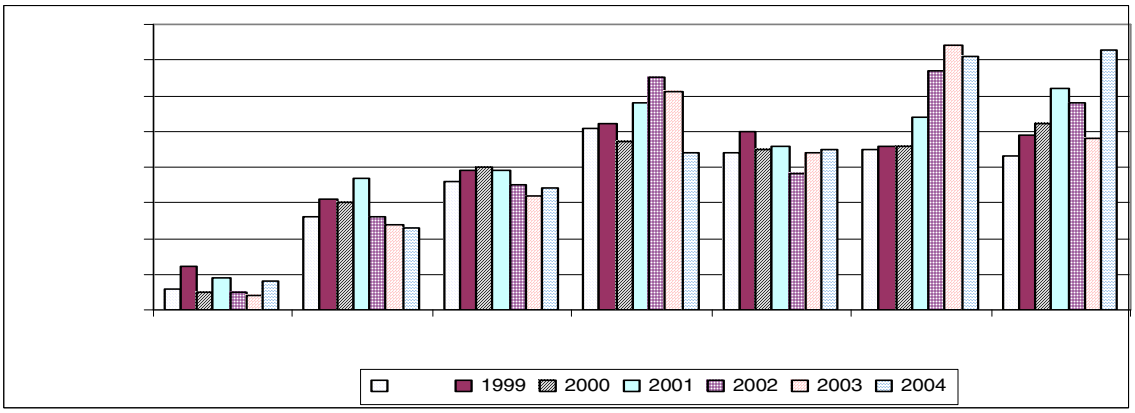


Figure 3.2. Company Operations and Strategy Ranking of Selected Asian Countries, 1998-2004

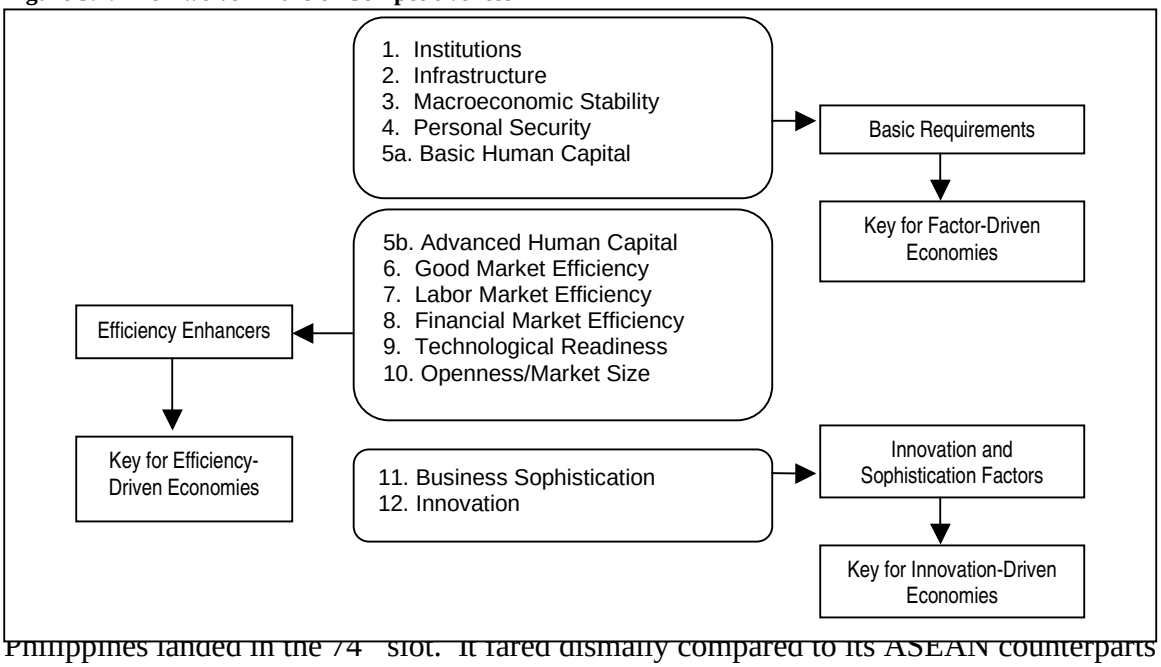




stage, wherein the basis of competition is rapid innovation. In computing for the competitiveness index, appropriate weights are assigned to each group, depending on the country's stage of development.

3.16 Meanwhile, the third principle recognizes that a country's development or transition from one stage to another is smooth rather than abrupt. This implies that the weights assigned on the sub-indexes of development also change smoothly as the country develops.

Figure 3.4. The Twelve Pillars of Competitiveness



Philippines landed in the 74th slot. It fared dismally compared to its ASEAN counterparts especially in terms of the basic requirements – institutions, infrastructure, macroeconomic stability, personal security and basic human capital. It rated better than Vietnam in terms of the efficiency enhancers and innovation factors but still, its ranking was way below most of its Asian neighbors.

Table 3.5. Global Competitiveness Index of Selected Asian Countries, 2004

		Three main components		
Country	**Overall Index**	**Basic Requirements**	**Efficiency Enhancers**	**Innovation Factors**
Singapore	7	5	4	14
Indonesia	48	55	52	39
Malaysia	23	21	25	26
China	32	41	38	31
Thailand	33	38	39	36
Vietnam	61	60	79	87
Philippines	**74**	**82**	**64**	**67**

Source of basic data: World Economic Forum. 2004. The Global Competitiveness Report, 2004-2005.

3.18 There are specific indicators that Philippines rate well, the "positive list" (e.g. private sector employment of women, wage equality of women in the workplace, company promotion of volunteerism, tax burden, etc). However, it has a long "negative list" – policy consequence of legal political donations (No. 104), irregular payments in

government policymaking (103), irregular payments in judicial decisions (103), prevalence of illegal political donations (103), business cost of terrorism (102), postal inefficiency (102), irregular payments in public contracts (102), burden of local government regulation (99), etc.

3.19 An inter-country comparison of **Most Problematic Factors for Doing Business** shows similarities and distinct differences across Asian countries. In the Philippines, corruption ranks first, followed by policy instability, inefficient bureaucracy, government instability/coups, and inadequate infrastructure. Corruption and inefficient bureaucracy come out strong across countries except Singapore. Policy instability is a common thread, except in Malaysia, Singapore and Vietnam. Inadequate infrastructure concern is strong, except Malaysia, Thailand and Singapore. Access to financing cuts across, except in Indonesia. While there are similarities across countries, there are factors "unique" to the Philippines. They are: government instability/coup and crime.

Table 3.6 Most Problematic Factors for Doing Business in Asia (Percent of Respondents)

	Philippines	Indonesia	Malaysia	Thailand	Singapore	Viet Nam	China
Corruption	**22**	**19**	**12**	**15**	**0**	**22**	**15**
Inefficient Bureaucracy	**14**	**24**	**12**	**17**	**9**	**21**	**14**
Policy Instability	**13**	**20**	**1**	**12**	**2**	**1**	**15**
Government instability/coups	**12**	**3**	**0**	**4**	**0**	**0**	**3**
Inadequate infrastructure	**11**	**12**	**1**	**8**	**4**	**15**	**12**
Crime and theft	**8**	**3**	**1**	**2**	**1**	**1**	**2**
Access to financing	**7**	**3**	**15**	**10**	**12**	**7**	**12**

Source: World Economic Forum, 2004

ADB Report on Investment Climate

3.20 The Asian Development Bank published a related report, "Improving the Investment Climate in the Philippines".(www.adb.org/phco/) This report included country-specific data as well as references to the Global Competitiveness Report 2003-2004. It conducted inter-country comparisons with Bangladesh, China, India, Indonesia, Malaysia, Philippines, Sri-Lanka, Thailand, and Vietnam.

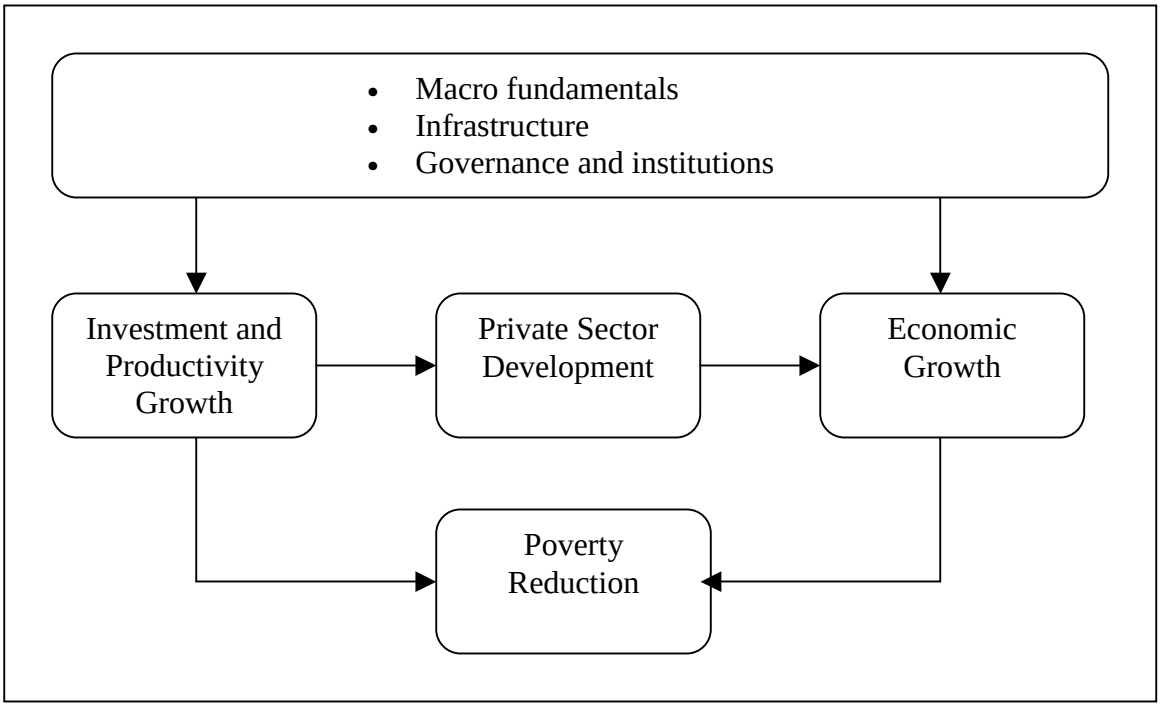
3.21 Broadly, the report defined investment climate as the "policy, institutional, and behavioral environment, both present and expected, that influences the returns and risks associated with investment environment" (Stern 2002).

Three broad sets of factors make up the investment environment: (i) macro fundamentals. (ii) infrastructure, and (iii) governance and institutions. Macro fundamentals include macroeconomic stability (e.g., reasonable fiscal and external balances, realistic

exchange rate, low inflation and interest rates), competitive markets, and social and political stability. Infrastructure has to do with availability and quality of physical infrastructure, such as transportation (roads and ports), telecommunications, power and water supply. Governance and institutions refer to transparency and efficiency in regulation, taxation, and legal system; strong and well-functioning financial sector; labor market flexibility and skilled labor force.

3.22 Figure 3.5 illustrates in simple fashion the links from investment climate to investment and productivity growth that stimulates private sector development and, in turn, economic growth leading to poverty reduction.

Figure 3.5 Investment Climate, Productivity, Growth, and Poverty Reduction



Source: ADB (2004)

3.23 The report claims that to foster investment and productivity growth, a sound investment climate is a must, and bringing that about is one of the fundamental roles of the government. In recent years, there has been increasing awareness among policy makers and international organizations of the importance of a conducive investment climate and greater emphasis is being placed on their development assistance agenda.

3.24 The key findings from these perspectives remain the same: (i) the Philippines has weak macroeconomic fundamentals that could impede investment and productivity growth; (ii) the existing infrastructure is considered a serious constraint to doing business, especially the transportation and power sectors; (iii) corruption is perceived to be most serious concern of establishments; and (iv) business procedures and regulations need to be streamlined. Also small enterprises tend to suffer more from these shortcomings than do medium-size and large firms. For business to thrive and become

more competitive and outward-oriented, inadequacies in infrastructure, governance (over-regulation), and finance must be addressed with vigor and resolve.

3.25 A related report by the Makati Business Club entitled *Transparent Accountable Governance (TAG)* shows similar results. The general finding of the 2003/2004 TAG Enterprise Survey were that rating for government agencies on corruption were poorer than in the 2002/2003 Survey. Moreover, 50% of the managers and executives interviewed personally encountered corruption in the immediate three months preceeding the survey, indicating that corrupt practices were relatively widespread. As in the previous three surveys, managers indicated that corruption was more prevalent in the public sector than in the private sector; 57% said bribery to get a public sector contract was pervasive in their own business sector. The median allotments for bribery on a government contract was 20% (versus 10% on a private sector contract).

Table 3.7 Reason Why Corruption is Wrong (In % of Respondents)

	TOTAL	Manila	Cebu	Davao
It hurts national development	56	52	61	74
It is immoral	41	47	33	18
Both (volunteered)	3	1	6	8

Source: Social Weather Stations

3.26 The private sector, however, was not immune to corrupt practices. Among businessmen, few trusted others in their business sectors (i.e. competitors). Less than a third felt that all companies in their sector issued receipts. Only 2 in 10 stated that all companies in their sector kept one set of books. And only 15% felt that all companies in their sector paid the right taxes. Significantly, it didn't seem to make a difference whether a company was publicly listed on the stock exchange or had a written code of corporate governance or ethics. Business managers – 71% of them – feel that corruption is learned in the workplace rather than at home.

Table 3.8 Top Ten Government Agencies Named as Corrupt (In % of Respondents)

	TOTAL	Manila	Cebu	Davao
Bureau of Customs	70	73	79	50
BIR	68	71	68	56
DPWH	49	49	52	45
PNP	28	29	29	22
LTO	21	21	28	17
DENR	10	8	10	16
DepEd	8	8	7	10
Office of the President	7	8	3	2
House of Representatives	6	7	7	2
Senate	6	7	6	4

Source: Social Weather Stations

3.27 The TAG report indicated that there are several reasons why corruption is so hard to beat. The first is that so few complain publicly. Among those asked for bribes on a government transaction, 95% opt to stay quiet and never complain. The most commonly cited reason is that nothing will be accomplished anyway. Even in the private sector, 46% of executives say that private firms seldom punish corrupt executives.

3.28 According to the report, the good news is that all that is about to change. For the fourth year in a row, the survey has shown that there is growing sentiment among the business community of the need for an Anti-Corruption Program Fund. Starting from a median contribution of one percent of net income in the 1st TAG Survey, this year's survey now indicates that businesses are willing to set aside a median contribution equivalent to three percent of net income for such a fund. Two thirds of the firms covered in the latest TAG Survey indicated that they were willing to contribute to the fund.

THE MTPDP TARGETS

3.29 The MTPDP's overriding task is to create 10 million jobs over six years, from mid 2004 to mid 2010. These will be achieved by three million entrepreneurs and the development of two million hectares of agribusiness lands. The strategic imperative for job creation will be further referred to in subsequent discussions. The gross domestic product (GDP) is projected to increase by an average of 6.3 to 7.2 percent annually. On the production side, agriculture is projected to increase by an average of 4.1 to 5.1 percent annually. On the expenditure side, gross investments will increase by 11.3 to 12.7 percent a year.

Table 3.9 Medium-Term Macroeconomic Targets (Growth rate, in percent)

	TARGETS							Average
	2004	2005	2006	2007	2008	2009	2010	
Gross National Product	5.2 - 6.0	5.5 – 6.4	6.5 – 7.5	6.9 -7.8	7.0 - 8.0	7.2 - 8.2	7.2 - 8.2	6.5 - 7.4
Gross Domestic Product	4.9 - 5.8	5.3 – 6.3	6.3 – 7.3	6.5 – 7.5	6.8 - 7.8	7.0 - 8.0	7.0 - 8.0	6.3 - 7.2
EXPENDITURE								
Private Consumption	5.0 - 5.7	4.7 – 5.3	5.0 – 6.0	5.3 – 6.3	5.5 - 6.5	5.5 - 6.5	5.5 - 6.5	5.2 - 6.1
Government Consumption	0.8 - 1.7	3.4 – 3.9	3.4 – 4.4	3.5 – 4.5	3.7 - 4.7	4.0 - 5.0	4.0 - 5.0	3.3 - 4.2
Investments	8.8 - 9.3	6.6 – 6.8	11.4 – 13.2	11.4 - 13.2	13.2 - 15.2	13.6 - 15.6	13.8 - 15.8	11.3 - 12.7
Fixed Capital	4.7 - 5.4	6.6 – 7.1	11.8 – 13.2	11.6 - 13.2	13.5 - 15.2	13.9 - 15.7	14.1 - 15.8	10.9 - 12.2
Construction	3.4 - 4.0	5.1 – 5.5	11.8 – 12.8	11.0 - 12.0	12.1 - 13.0	12.9 - 13.9	13.0 - 14.0	9.9 - 10.7
Exports	3.4 - 4.4	8.2 – 9.2	13.0 – 14.0	11.0 - 12.0	10.0 - 11.0	13.0 - 14.0	11.1 - 12.1	10.0 - 11.0
Imports	7.0 - 8.0	11.7 – 12.7	14.5 – 15.5	12.2 - 13.2	11.2 - 12.2	14.1 - 15.1	12.1 - 13.1	11.8 - 12.8
PRODUCTION								
Agriculture, Fishery & Forestry	4.0 - 5.0	4.2 – 5.2	4.2 – 5.2	4.0 – 5.0	4.1 - 5.1	4.2 - 5.2	4.0 - 5.0	4.1 - 5.1
Industry	4.4 - 5.2	5.4 – 6.4	7.2 – 8.2	7.3 – 8.3	7.8 - 8.8	8.2 - 9.2	8.5 - 9.5	7.0 - 7.9
Mining & Quarrying	10.0 - 10.9	15.0 – 16.0	15.0 – 16.0	12.0 - 13.0	12.0 - 13.0	12.0 - 13.0	12.0 - 13.0	12.6 - 13.6
Manufacturing	4.5 - 5.3	5.0 – 6.0	6.1 – 7.1	6.6 – 7.6	7.2 - 8.2	7.5 - 8.5	7.8 - 8.8	6.4 - 7.4
Construction	2.4 - 2.9	4.8 – 5.8	12.5 – 13.5	10.8 - 11.8	11.1 - 12.1	11.9 - 12.9	11.8 - 12.8	9.3 - 10.3
Utilities	3.3 - 4.3	4.1 – 5.1	4.3 – 5.3	4.5 – 5.5	5.0 - 6.0	5.2 - 6.2	5.5 - 6.5	4.6 - 5.6
Services	5.7 - 6.6	5.7 – 6.6	6.5 – 7.5	6.9 – 7.9	7.1 - 8.1	7.1 - 8.1	7.2 - 8.2	6.6 - 7.6

Source: MTPDP, 2004-2010

3.30 How do the targets compare with the last six years, 1998-2003? Real GDP grew by an average of 3.3 percent annually, and agriculture by 2.6 percent annually. On the other hand, gross investments stagnated at best. Based on the track record, accelerating growth poses tremendous challenges to the government.

Table 3.10 Actual vs. Projected MTPDP Targets Average annual growth rate in percent

	Actual	Projected

	1998-2003	2004-2010
GDP	3.3	6.3 to 7.2
Gross Investments	(1.6)	11.3 to 12.7
Agriculture	2.6	4.1 to 5.1

Note: mean of annual growth rates. The 1998 performance of the sectors was affected by the Asian financial crisis and the long El Nino phenomenon in 1997-1998.
Source: NSCB; MTPDP

3.31 In absolute terms, GDP at constant *2003* prices will reach from Php 6,575 billion to Php7,014 billion in 2010 from Php 4,300 billion in 2003, on an increase of Php 2,275 billion to 2,714 billion. With respect to gross investments, it will increase from Php 715 billion in 2003 to Php 1,506 billion to Php 1,649 billion in 2010. The total investments (at constant 2003 prices) to generate the GDP growth will range from Php 7,555 to 7,936 billion, or an average of Php 1,079 billion to 1,134 billion yearly. Based on a simple ratio, the incremental capital output ration (ICOR) is 3.32 to 2.92, a far more efficient use of capital than what was experienced in the previous years (1994-2003) at 6.44.

3.32 Meanwhile, agriculture is projected to increase from Php 638 billion (Note: Php215 billion at constant 1985 prices) in 2003 to Php 845 billion to 904 billion in 2010 at constant 2003 prices. This is an incremental output of Php 207 to 266 billion. Assuming an incremental capital output ratio of 4 to 5, the total investment required will be Php 828 to Php1,330 over seven years in 2003 prices, or an average annual outlay of Php 118 billion to 190 billion. This is 11 to 14% of planned gross domestic investments annually. Assuming 80% will come from the private sector, this translates into Php94 to 152 billion of private investments in agriculture a year.

Critique of MTPDP

3.33 The MTPDP goals of growth and job creation are in the right direction. Growth will have positive effects on employment. At the same time, the strategic imperative of job creation finds critical importance on the growing labor force that is bedeviled by an already high level of unemployment.

3.34 With respect to agriculture development, the principal goals are:

(a) Develop at least 2 million hectares of **new land** for agribusiness in order to contribute 2 million out of the 10 million jobs targeted as a legacy by 2010; and

(b) Make food plentiful at competitive prices where the cost of priority "wage goods" such as rice, sugar, vegetables, poultry, pork and fish and other important non-wage goods like corn must be reduced.

Box 3.1

MTPDP TARGETS, 2004 TO 2010

Average GDP Growth Rate	: 6.3 to 7.2 percent/year
Agriculture Growth Rate	: 4.1 to 5.1 percent/year
Agriculture Job Creation	: 2 million over six years
New Land for Agribusiness	: 2 million hectares

- MTPDP Document

3.35 At least one million ha of the government lands will be included in the two million hectare target (DA Secretary Yap Speech to Philippine Agriculture Economics and Development Association Convention, November 2004). The Plan also calls for complete surveys, classification and distribution of public A & D lands by 2010.

Box 3.2 MTPDP AGRIBUSINESS TARGETS

Goal	Objectives
1. Develop at least 2 million ha and create 2 million jobs	③Design and establish the framework and mechanics, including public-private partnership arrangements, by end 2005 that will facilitate the transformation of farmlands into agribusiness enterprises. ③Organize a large-scale community-based and environment-friendly program of crop and fishery production intensification and diversification, especially high-value and non-traditional commodities in existing crop, livestock and fish farms. ③Transform idle agricultural lands, offshore and inland bodies of water as well as marginal lands into productive agribusiness enterprises to fully utilize existing agriculture and fishery resources ③Promote off- and non-farm enterprises (including agri-processing) in the agribusiness lands to increase and stabilize rural income ③Make Mindanao as the country's main agro-fishery export zone
2. Make food plentiful at competitive prices where the cost of priority "wage goods" such as rice, sugar, vegetables, poultry, pork and fish and other important non-wage goods like corn must be reduced. This also means that government will continue to fight for self-sufficiency in rice production by increasing price and production efficiency and competitiveness.	③Raise factor (land, labor and capital) productivity to approach the regional average within six years. ③Increase the effectiveness, adequacy and efficiency of the agricultural sector's transport and logistical support system for both farm inputs and produce to approach regional standards especially for agricultural and fishery food products. ③Implement critical governance reforms to establish a bureaucracy that will effectively be responsive to the demands of a productive and enterprising agricultural sector
	- MTPDP Document

3.36 According to MTPDP, new agribusiness lands include:

③Underutilized farm lands which can be made more productive through increased cropping intensity, intercropping and diversification;

③Idle and marginal farmlands, including denuded upland areas; and

③Idle off-share and inland bodies of water for aquaculture.

Table 3.11 shows the detailed six-year targets for agribusiness lands, productivity improvement and job creation. At a glance, the total areas will be 2.05 million ha of new

lands with 2.81 million jobs for addition; and 1.26 million ha of existing areas for improvement and 466,000 jobs. The total of 3.3 million ha and 3.3 million jobs exceed the macro target of 2 million ha for each. The responsible agriculture agencies are: DA, DAR and DENR.

Table 3.11. Updated Area and Job Targets, 2004-2010

	Area (ha)	Job creation
③New Lands	2,047,400	2,810,710
③Existing Areas	1,260,250	465,980
TOTAL	3,307,650	3,276,690

Source: Department of Agriculture (Before January 18, 2005)

3.37 The critique will dwell on macro and micro concerns of the plan targets. The listing of program and activities by specific objectives are shown in Annex 1. The government expects least P100 billion from various sources (GFIS, private sector, LGUs) to fund private sector investment funding for six years for the targeted two million ha of new lands. DA Secretary Arthur Yap indicated that Php 45 billion will come in the form of loanable fund from government financial institutions (GFIs); Php27 billion from coconut industry investment fund (CIIF); and Php 20 billion from private sector; and Php 4.5 billion from LGUs. Altogether, the aggregate project pipeline will average Php50,000 per ha over six years.

Table 3.12. Total Agribusiness Program Financing, 2004-2010

Agency/Source	Amount (Php million)	Share (%)
③GFIs (Land Bank, DBP)	45,000	45.0
③CIIF	27,000	27.0
③Private Sector	20,000	20.0
③LGUs	4,500	4.5
③DENR/DAL	300	0.3
③Others (?)	3,200	3.2
TOTAL	100,000	100.0

The target for 2005 is to develop 300,000 ha that will cost Php 18 billion. It is expected to create 500,000 jobs.

3.38 The critique has two levels:

- Analysis of Goal No. 1: Develop 2 million hectares and 2 million jobs; and
- Analysis of Goal No.2: Make food plentiful at competitive prices.

Table 3.13. Six-Year Targets for Areas for Agribusiness and Productivity Improvement and Jobs (Initial)

Commodity	Baseline 2003 Harvested Area (has.) (a)	New areas for agribusiness development (has.)	Number of jobs to be generated	Existing areas for productivity enhancement (has.)	Number of jobs to be generated
RICE	**4,006,000**	**-**	**-**	**875,130**	**80,860**
CORN	**2,400,000**	**280,250**	**280,250**	**-**	**-**
LIVESTOCK	**-**	**45,200**	**45,200**	**-**	**-**
FISHERIES	**-**	**17,210**	**743,540**	**-**	**-**
Bangus (culture)		3,190	86,260	-	-
Tilapia (culture)		8,200	221,450	-	-
Seaweeds		5,820	201,360	-	-
Others* (mariculture, etc.)		-	234,470	-	-
HIGH VALUE CROPS (FOOD)		**292,690**	**329,670**	**214,780**	**214,780**
Pineapple	47,635	1,520	1,900	-	-
Pili	-	850	1,120	-	-
Sugar	391,095	20,410	20,410	-	-
Coffee	131,790	9,440	9,440	56,420	56,420
Mango	155,235	130,170	130,170	-	-
Durian	11,524	8,510	8,510	22,090	22,090
Banana	409,831	72,840	72,840	-	-
Onion	9,516	-	-	2,680	2,680
Cassava	209,214	15,590	15,590	48,420	48,420
Citrus	16,866	390	390	11,680	11,680
Vegetables	-	26,730	63,060	73,490	73,490
Garlic	5,459	6,240	6,240	-	-
HIGH VALUE CROPS (NON-FOOD)		**1,412,050**	**1,412,050**	**170,340**	**170,340**
Abaca	121,476	50,390	50,390	29,940	29,940
Rubber	80,144	11,660	11,660	83,900	83,900
Coconut**	3,214,226	1,350,000	1,350,000	-	-
Tobacco	41,723	-		56,500	56,500
GRAND TOTAL		**2,047,400**	**2,810,710**	**1,260,250**	**465,980**

(a) Baseline data was not in the MTPDP document. This data was taken from BAS.
**Equivalent in hectares cannot be determined due to varying sizes of sea cages*
***Areas which will be developed for intercropping with suitable cash crops and/or high value crops or used for livestock production.*
Source: MTPDP

Development of at least 2 Million Hectares and 2 Million Jobs (Goal No. 1)

3.39 Achieving the goal will be one of the greatest challenges of the Philippine government. A cursory look at the past ten years for selected crops (Table 3.13) shows that for the five major crops, the area targets appear to be aligned with the past area trends, except for sugarcane where future growth will likely depend on yield expansion. For the other crops, serious questions arise on the area expansion of mango, coffee and abaca as well as the zero growth for tobacco. Market forces do not favor a higher level of expansion. Most of these issues are treated in detail in the report.

Table 3.14 COMPARISON OF AREA EXPANSION: PAST AND PLANNED
Selected Crops in hectares

Crop	1994	2003	AAGR %	2003	2010	AAGR %
Rice	3,651,530	4,006,421	+1.1	4,000,000	4,006,421	+ 0
Corn	3,005,820	2,409,828	-2.1	2,409,828	2,690,078	+1.6
Coconut	3,082,727	3,214,226	+0.4	3,214,226	3,214,226	+ 0
Sugarcane	401,635	391,095	+0.6	391,095	411,505	+0.7
Banana	335,131	409,831	+2.3	409,831	482,671	+2.4
Mango	99,112	155,235	+13.9	155,235	285,405	+9.1
Coffee	142,651	131,790	-0.7	131,790	141,230	+1.0
Abaca	103,127	121,476	+1.2	121,476	171,866	+5.1
Rubber	86,005	80,144	-1.4	80,144	91,804	+2.0
Tobacco	51,667	41,723	-3.7	41,723	41,723	+0

AAGR = Average annual growth rate (logarithm method for 1994-2003 series)
Source: MTPDP, BAS

The DA revised its targets and considered them work in progress as it continues to consult with stakeholders. It has reportedly hired consultants to conduct commodity market studies as inputs to future revisions of Goal 1 targets.

Table 3.15 AGRIBUSINESS LANDS DEVELOPMENT
(Revised as of January 18, 2005)

Commodity	Agribusiness Lands		Total New Jobs
	Hectares	% Share to Total	
Coconut	1,350,000	73.08	1,350,000
HVCC	207,150	11.21	244,130
Mango	35,144	1.90	35,144
Banana	59,000	3.19	59,000
Coffee	30,000	1.62	30,000
Cassava	15,590	0.84	15,590
Durian	18,476	1.00	18,476
Vegetables	32,970	1.78	69,300
Rubber	13,210	0.72	13,210
Others (Phil.Citrus , Pineapple)	2,760	0.15	3,410
Sugar	20,410	1.10	20,419
Abaca	50,390	2.73	50,390
Corn	157,000	8.50	157,000
Livestock	45,202	2.45	45,200
Fisheries	17,210	0.93	743,540
Tilapia	8,200	0.44	240,504
Bangus	3,190	0.17	122,396
Seaweeds	5,820	0.32	380,640
TOTAL	**1,847,362**	**100**	**2,610,719**

Source: DA

3.40 The critique will focus on several strategic concerns. They are:

(a) Market Analysis;

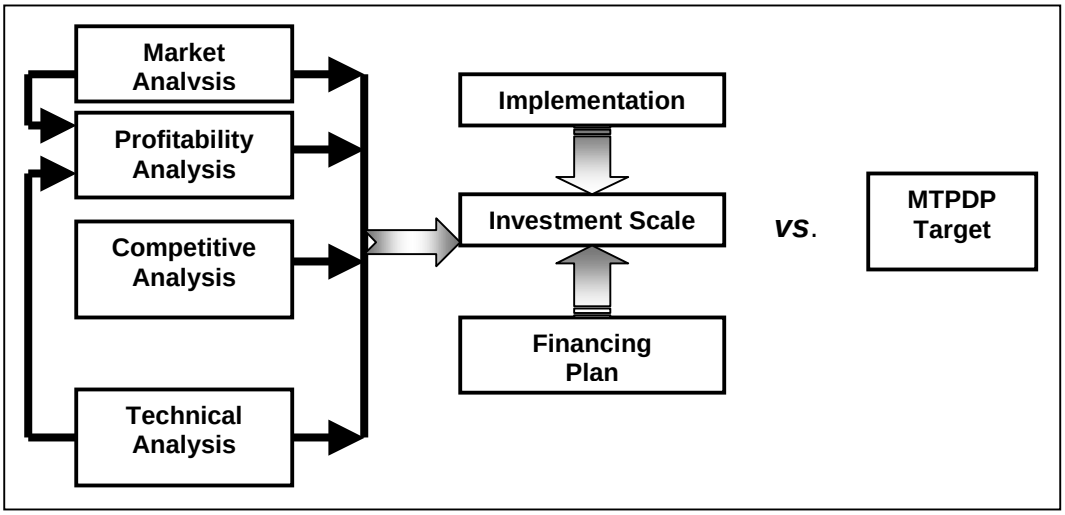
(b) Trade-off between Area Expansion or Yield Increase to Satisfying Market Demand;

(c) Private Sector Orientation; and

(d) Program Financing.

The critique focused on the initial area targets. The recent DA updates may have superceded some of the analysis but the general conclusions still stand.

Figure 3.6. Investment Decision



Analysis

3.41 Market Analysis is first step in investment project analysis. Area and production targeting can be tricky given the amount of resources the government plans to commit in the next six years. An explicit *market-driven, private sector-led growth is a strategic imperative.*

3.42 Market demand can be driven by two "megatrends." The first is the growth of the domestic market which is propelled by two macro forces: the income growth per capita and population growth. These apply to many wage goods such as: rice, meat, and fish. Second is the growth in the export markets such as USA, EU, China, and Japan. The export products include: coconut oil, banana, canned tuna, seaweeds and carrageenan. Given the reduction in tariffs and more efficient logistics, competition in these markets will become increasingly tight.

3.43 A related strategic issue is where will the supply come from? Is it from area expansion, or productivity increase, or both? From the 2 million ha target, it appears that area expansion will play a greater role than productivity increases.

Domestic Market

3.44 Rice**. The National Food Authority (NFA) has estimated rice demand in 2004 at 28,400 tons per day or 10.4 million tons annually. This works out to a total of 124 kg/capita: food consumption at 109 kg per capita; and the balance for seeds, wastes, etc. This has about 16 million tons in palay equivalent. In 2003, the total production was 13.5 million tons from an average yield (for irrigated and rainfed areas) was about 3.37 ton/ha, and harvested area of 4 million ha. This was expected to increase to 14.54 million tons in 2004, or a gap of about 1.5 million tons palay. Assuming a 3 percent growth rate in annual demand (population growth plus a small effect of income growth), total rice food demand will increase from 9.16 million tons in 2004 in 2010 to about 10.9 million tons rice in 2010 (16.8 million tons palay at 65 percent recovery). Add the requirements of 2 million tons for seeds etc and total palay requirement will be 18.8 million tons. Assuming no change in harvested areas, the total yield in 2010 must reach about 4.7 tons per ha, or increase by 3 percent a year. This is a big hurdle to say the least.**

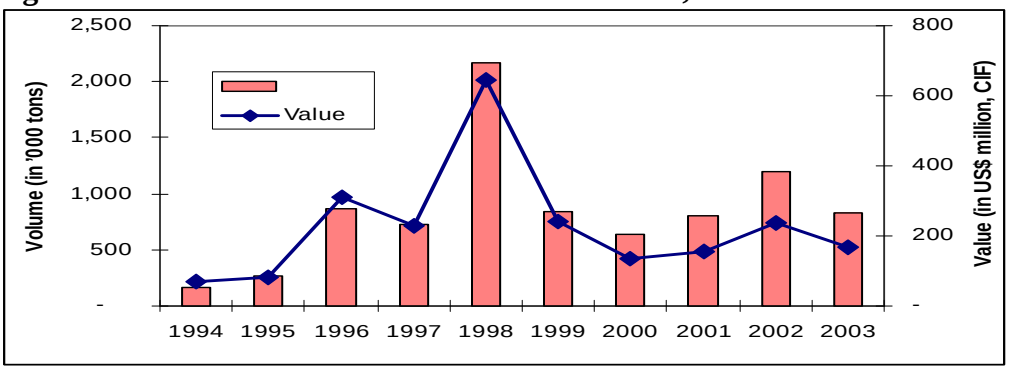
Table 3.16 RICE: SUPPLY AND DEMAND: Calendar Year 2000-2004 ('000 tons)

	2000	2001	2002	2003	2004 (a)
Beg. Stock (Jan. 1)	2,365	2,166	2,271	2,388	2,362
Production	8,053	8,421	8,625	8,775	9,451
Imports	637	749	1,247	927	1,071
Requirement	8,889	9,065	9,755	9,728	10,383
End Stock (Dec.30)	2,166	2,271	2,388	2,362	2,501
Est. Daily Requirement	24.3	24.8	26.7	26.7	28.4
Total Per Capita (kg)	116.2	115.8	121.6	118.6	123.6
-Food	102.6	102.3	108.0	105.7	109.0
-Seeds, wastes, etc	13.6	13.5	13.6	12.9	14.6
Population (mln)	76.5	78.3	80.2	82.0	84.0

Note: Population in 2010 assuming 2.36 % annual growth rater will be 96.6 million (rather on the high side)
(a) Inter-Agency Committee Estimates, October 2004
Source: National Food Authority, Market Review, October 2004

3.45 The MTPDP plans no new expansion in rice lands. About 875,000 ha will benefit from productivity enhancement. This could mean investments in irrigation as well as delivery of good seeds. Just for irrigation alone, MTPDP will need some Php 87.5 billion at an average cost of at least P100,000 per ha, or P14.6 billion a year (Note: This was already the total annual budget of the DA in 2004).

Figure 3.7 IMPORTS: Volume and Value of Rice, 1994-2003



Source: NSO

3.46 Strategic Question**: Is investing at least P100,000 per ha for rice irrigation the best use of scarce resources, or there are other investment alternatives such as coconut fertilization and replanting, tree crops and timber trees? It costs less per hectare developing tree crops. Tree farmers also pay for the development costs while rice farmers practically do not pay for public irrigation investments. Moreover, the government collection of irrigation service fees in national systems are not adequate to cover maintenance costs. While job creation maybe higher for tree crops, there is a strong political pressure to target rice self-sufficiency.**

3.47 **Corn.** The country needs at least 6 million tons of corn annually. About 70 percent are used for livestock and poultry feeds and the rest for food and processing. The country supplied about 5.3 million tons in 2004 and 4.6 million tons in 2003 respectively. Industry reports indicate less than 8% (200,000 ha) of corn areas (2.5 million ha in 2004) are planted to hybrids. The average yield in 2003 was only 1.9 ton per ha, way below global benchmarks of at least 4 ton per ha. It is safe to project a 5 percent increase in corn demand given the high income elasticity of demand of pork (1.3) and chicken (1.8)

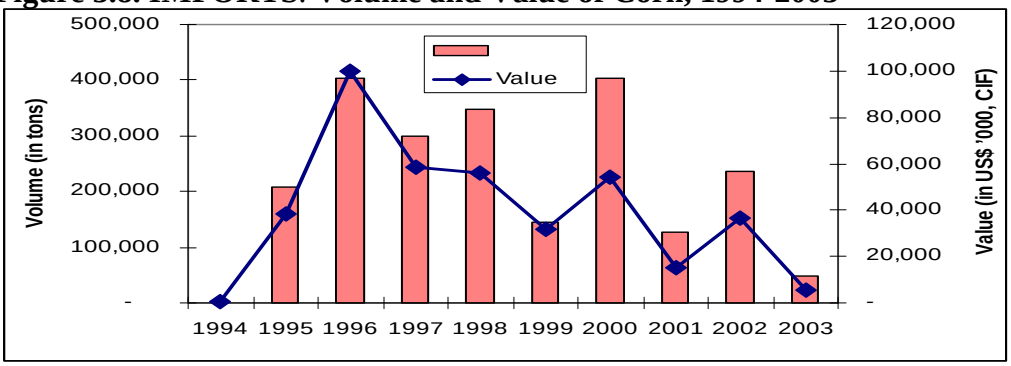
to real consumption spending[1]. This can be achieved by a combination of area and yield expansion, the latter using high yielding seeds. There is no mention of irrigating corn areas but very likely this is in the DA pipeline.

Table 3.17 CORN: SUPPLY AND DEMAND: Calendar Year 2000-2004 ('000 tons)

	2000	2001	2002	2003	2004 (a)
Beg. Stock (Jan. 1)	244	190	178	233	211
Production	4,511	4,525	4,319	4,616	5,344
Imports					
Corn	566	199	218	98	10
Corn Substitutes	384	887	1,297	1,325	753
Usage	5,515	5,623	5,816	6,061	6,118
End Stock (Dec.30)	190	178	233	211	200**

*** Excludes cornstock held by commercial livestock and poultry producers and corn mixed in feeds stock.*
(a) Inter-Agency Committee Estimates, October 2004
Source: National Food Authority, Market Review, October 200

Figure 3.8. IMPORTS: Volume and Value of Corn, 1994-2003



Source: NSO

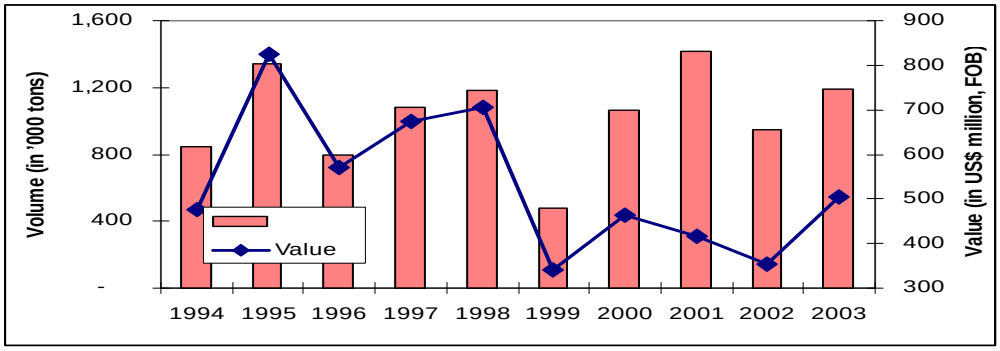
3.48 **Strategic Question**: Corn has a growing market for hogs and poultry feeds provided it is competitive. A competitiveness strategy must increase yield and reduce logistics costs. Given the low adoption rate of hybrids, production can be achieved by yield increases. If corn can be grown competitively, there is scope for export at the end of the MTPDP.

3.49 **Coconut.** Coconut occupies about a third of total farmlands of 10 million ha. According to industry estimates, easily 30 percent are senile. Of the 3.2 million ha of coconut areas, only about 1 million are intercropped; the rest are mono-cropped at yields of way less than one ton copra per ha per year. Among major crops, coconut areas have among the highest poverty incidence. The Plan calls for productivity enhancement (intercropping) of some 1.26 million ha that will create 466,000 jobs in six years. Assuming an average cost of intercropping of P50,000 per ha, the total program cost will be Php 63 billion.

[1] Master Plans for Hogs and Broiler, DA, 2002

3.50 The country is the major supplier of coconut oil in the world market. The high prices in recent years are indicative of scarcity. It is safe to assume a global market growth of 3 percent a year over the next six years from present consumption. At the same time, demand for value added products from coconuts are growing.

Figure 3.9. EXPORTS: Volume and Value of Coconut, 1994-2003



Source: NSO

3.51 **Strategic Concern**: The MTPDP targets 1.26 million ha for development but it is silent on details such as market of intercrops, replanting and the quick yielding fertilization program. It is likely that a detailed program is in progress with the Philippine Coconut Authority.

3.52 **Sugarcane**. The MTPDP targets an additional 20,400 ha of new lands for expansion till 2010 from about 392,000 ha during crop year 2004-05. The trend in the past five years shows that supply have surpassed demand and growth was fuelled by area (+9%) and yield expansion (+32%) Industry experts project that due to soft prices, production will decline in 2005-06. It is felt that the additional demand growth of 1.45 percent a year can be covered by yield increases as shown by the combined increase of farm yield and sugar content due to better cane varieties developed by the Philippine Sugar Research Institute The industry normally sends 94 percent to the local market, and 6 percent to the US quota market. Of late, it has to export at a loss to the world market due to the oversupply situation.

Table 3.18 SUGAR: Supply and Demand

	1999-00	2000-01	2001-02	2002-03	2003-04
Area (ha)	362,528	364,445	366,657	383,745	396,135
Yield(ton sugar/ha)	4.47	4.95	5.18	5.63	5.90
Production (ton)	1,619,613	1,805,203	1,898,501	2,161,525	2,338,574
Ending Stock (ton)	535,753	273,688	306,818	219,493	176,552
Total Supply (ton)					
Demand (ton)	1,858,825	1,776,298	1,920,316	2,138,237	2,200,755
Ending Balance(ton)	296,541	302,593	285,003	242,781	314,371

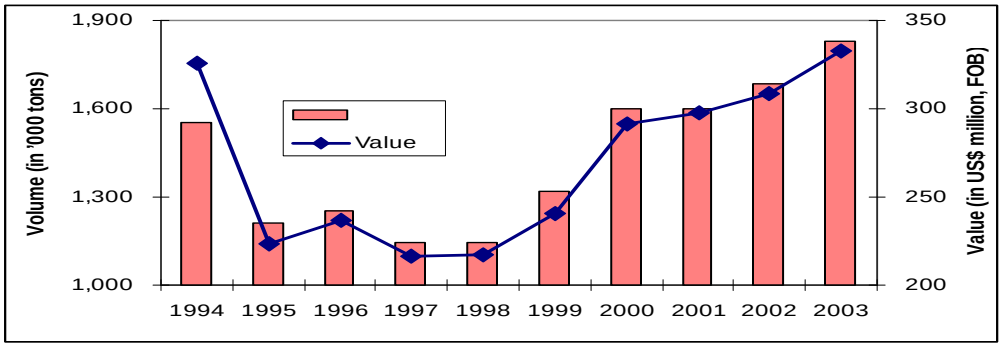
Source: SRA; Author's Estimates

3.53 **Strategic Concern**. It appears that sugar demand can be solely supplied by productivity increases as inefficient farmers will withdraw due to low prices. Only new demand (i.e. ethanol) can spur new area expansion in the next six years

3.54 **Banana**. The Plan calls for new areas of about 73,000 ha, or about 12,000 ha a year. Banana has three main varieties: *Cavendish* for fresh export; *lakatan* for domestic table fruit; and *saba/cardava* for banana chips export and domestic processing. The high-yielding Cavendish (over 40 tons per ha) is unlikely to contribute much to the new areas. Today, there are about 40,000 ha and assuming a historical 6 percent growth in demand, an additional area needed will be about 16,000 ha over six years. This leaves a balance of 57,000 ha for lakatan and saba/cardava, or about 10,000 ha a year. The cost of new plantings will be at a conservative Php12 billion for Cavendish; and about Php 3 billion for the rest, or a total of about Php15 billion**.**

3.55 The current planted areas for lakatan and saba/cardava of 370,000 ha with an average yield of 10 ton per ha. Use of good planting materials can easily lift yield as new saba/cardava varieties can yield at good management some 30 tons per ha.

Figure 3.10. EXPORTS: Volume and Value of Fresh Bananas, 1994-2003



Source: NSO

3.56 **Strategic Concerns:** New plantings and yield increases of lakatan and saba/cardava may cause oversupply in the domestic market. Export marketing must be given significant impetus. On the other hand, the contract growing arrangements in Cavendish banana addresses the marketing and technology concerns but some sectors flag the monopsony power of certain firms.

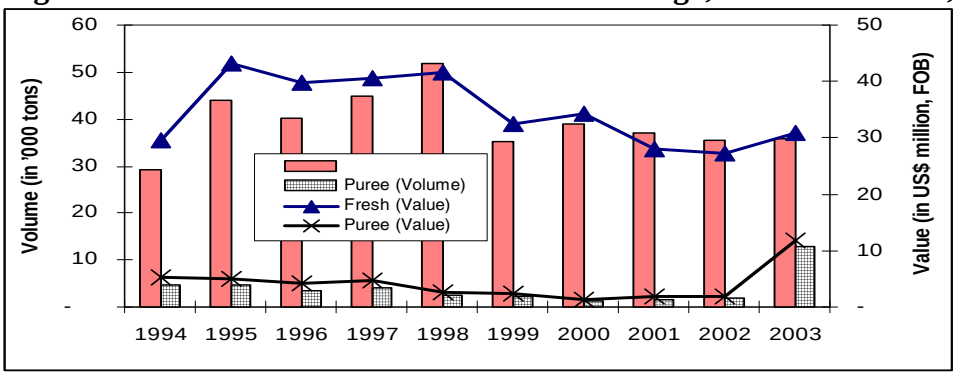
3.57 **Pineapple**. The country exports about 500,000 tons of various pineapple products: fresh, juices, and solids and earned about $170 million in 2003. There are two major producers: Del Monte Philippines and Dole in Mindanao. There are also two small processors plus fresh produce exporters of table *Golden* variety. The growth areas are fresh, juice and concentrates. Export of canned solids appears to have stagnated.

3.58 **Strategic Concern**. The Plan projects a minimal increase in area (about 1,500 ha). This appears to be very conservative as Philippine industry is competitive. A target of about 3,000 ha appears doable.

3.59 **Other Crops**. There are 15 listed high value crops (HVC) for a total new area of 355,000 ha and some 385,000 ha of existing areas, or a total of 740,000 ha. At an average of *only* P50,000 per ha, the total investment cost will be Php 37 billion. Some of the observations are:

(a) Mango: MTPDP targets new areas of 130,000 ha which is very optimistic (see Table 3.8). Note: (This was revised to 35,000 ha in January 2005) The country has planted a lot of mangoes in the past ten years. Their entry into production is already causing farm prices to soften. The 2003 data showed about 155,000 ha of harvested areas (1 million tons). These exclude immature areas which were not yet harvested. Unless there is massive increase in exports to China, the target appears untenable. The investment cost for new planting could reach Php 13 billion over six years.

Figure 3.11. EXPORTS: Volume and Value Mango, Fresh and Puree, 1994-2003



Source: NSO

(b) Oil Palm. This promising crop is not in the list. Today, the country produces about 50,000 tons of crude palm oil but consumes about 200,000 tons, according to an industry expert. There is about 23,000 ha of immature, mature and senile trees in 2004. Assuming demand increase of 5 percent a year, total domestic demand in 2010 will be about 34 percent more, or 270,000 tons. This will need about 100,000 ha of trees of various ages. The new areas of about 75,000 ha will require some Php7.5 billion.

(c) Timber Tree Plantations. There are no targets here. However, this investment is needed as the country imports over 50% of its logs and lumber requirements. In 2002, the country produced some 398,500 cubic meters of logs but imported another 434,200 cubic meters, with minimal export, the total consumption was 831,000 cubic meters. The story for lumber is even more lopsided: imports of (401,100 cu.m.) far exceeded production (163,200 cu.m.). There is certainly a domestic market for timber species.

Table 3.19 Supply and Demand Analysis of Wood Products, 2002
In cubic meters (to be updated)

Year	Production	Imports	Export	Consumption	Imports as % of Consumption
Logs	398,500	434,200	1,400	831,300	52
Lumber	163,200	401,100	90,600	473,700	85
Veneer	205,100	74,500	6,000	273,600	27
Plywood	350,400	650	21,900	329,150	Nil

Source: DENR, Philippine Forestry Statistics

3.60 **Livestock.** There is little new land for livestock development. This is understandable. Except for cattle pastures, livestock requires relatively less lands. However, the investment cost can be large. Let us take hogs. Demand is projected (Ref: Master Plan) to increase at 1.3x faster than real consumption spending. This is about 4 to

5 percent a year. Today, demand is about 20 million live hogs. At 4 percent a year, the additional demand will be about 26.5 percent higher in 2010, or an additional 5.3 million hogs. A modern 300-sow module will cost about Php 30 million which can produce 3,000 heads a year. The total investments required will be about 175 modules or Php5.2 billion.

3.61 With respect to poultry, current demand is about 600 million birds. Demand is projected to increase at 1.8x the increase of real consumption, or a conservative 6.5 percent a year. This means that by 2010, the country will need 46 percent more chickens, or 276 million birds. At an average of 5 cycles a year, a 115 million new capacity is needed by 2010. The investment cost ranges from P120 per bird for traditional structures to P250 per bird for cool cell technology. Total investment is about Php13.8 billion to Php 28.8 billion. Altogether, the total investment for hogs and chicken broiler (and excluding layer farms, feed mills, etc) will be at least Php 20 billion.

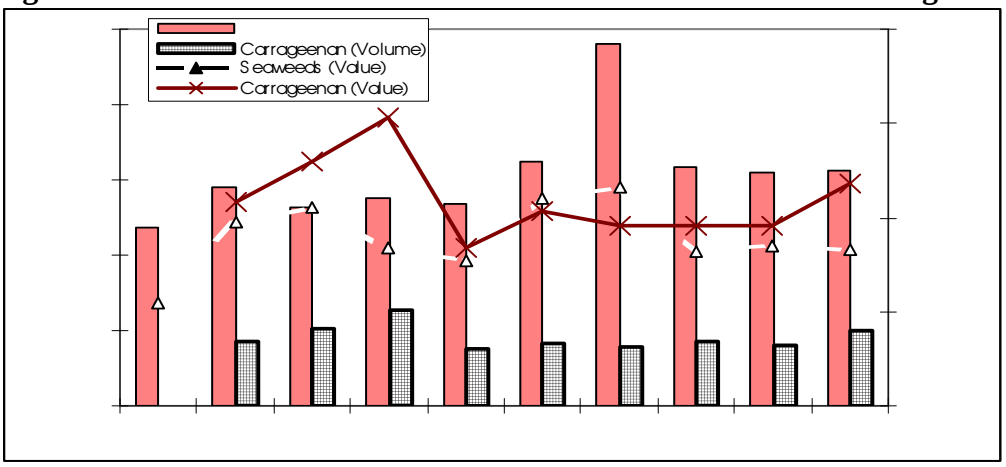
3.62 **Fisheries and Aquaculture**. The new areas planned for bangus will be 3,200 ha and for tilapia, 8,200 ha. Investment cost will be at least Php 2 billion. There is also room for expansion of seaweeds (See Annex C. Box). These investments exclude those in commercial fishing and processing.

3.63 **Strategic Concerns**. Aquaculture is the brightest area for investments. The country has 13,000 km of coastlines, over 200,000 ha of underutilized ponds, and potentials areas for freshwater and marine cages. There are various concerns that must be highlighted:

(a) The control of illegal fishing in the municipal waters;
(b) The tenure for fishing lease agreements;
(c) The need for bilateral fishing agreements with Pacific nations;
(d) The discriminatory tariffs against canned tuna in the EU; and
(e) The preferential tariffs for poached tuna from Andean Pact countries, specifically Ecuador

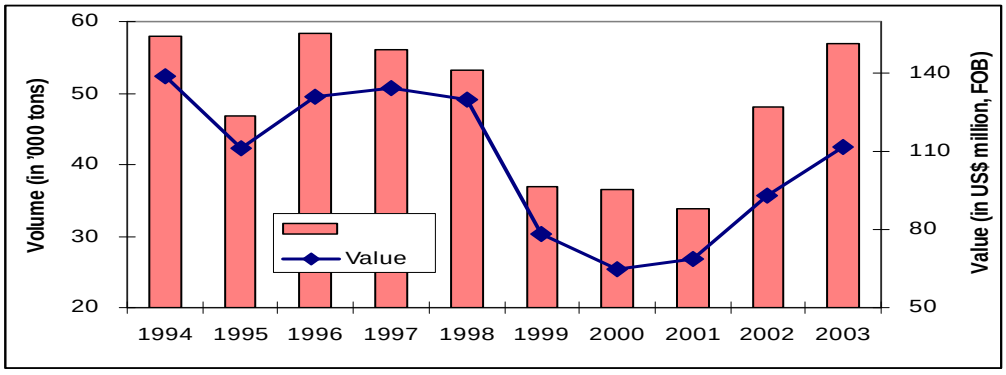
3.64 The unfounded concerns with respect to growing fresh water shrimp *penaeus vannamei* in some sectors have also discouraged investments. This is reportedly being resolved. According to an industry source, an estimated 20,000 ha of fishponds can be adopted for *vannamei* and employ 20,000 jobs.

Figure 3.12. EXPORTS: Volume and Value of Seaweeds and Carrageenan, 1994-2003



Source: NSO

Figure 3.13. EXPORTS: Volume and Value of Canned Tuna, 1994-2003

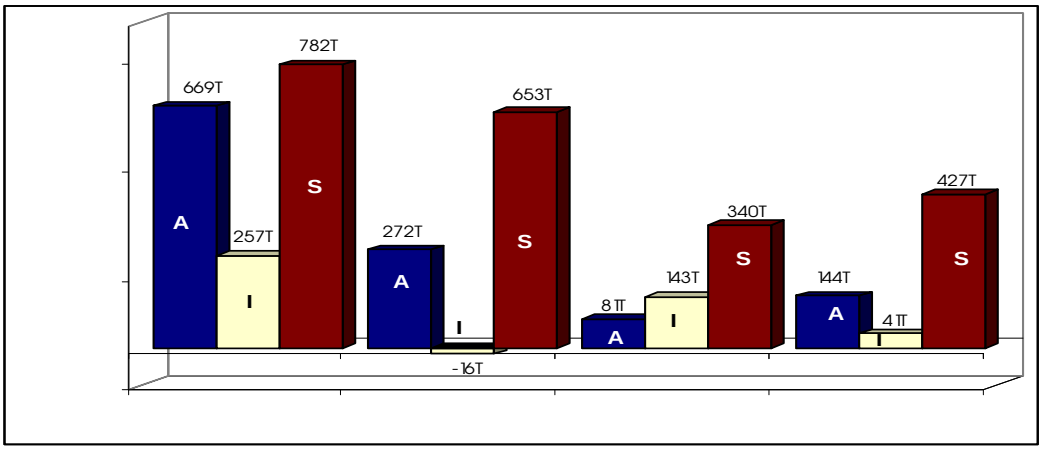


Source: NSO

Job Creation

3.65 The Plan targets 10 million jobs until 2010, or 1.67 million jobs a year. How do these compare with the past? During 2001 to 2004, some 3.8 million jobs were created over four years, or an average of 950,000 jobs a year, Agriculture contributed 31 percent or a total of 1.17 million for four years, and 292,000 jobs a year. The MTPDP revised target for agriculture will total 3.28 million jobs, or 546,000 a year. The annual target will be double the previous years' record. Attaining the target will be a very tough challenge.

Figure 3.14. Jobs Created from Agriculture (A), Industry (I) and Services (S), 2001-2004



Source: NSO

Make Food Plentiful at Competitive Prices (Goal No. 2)

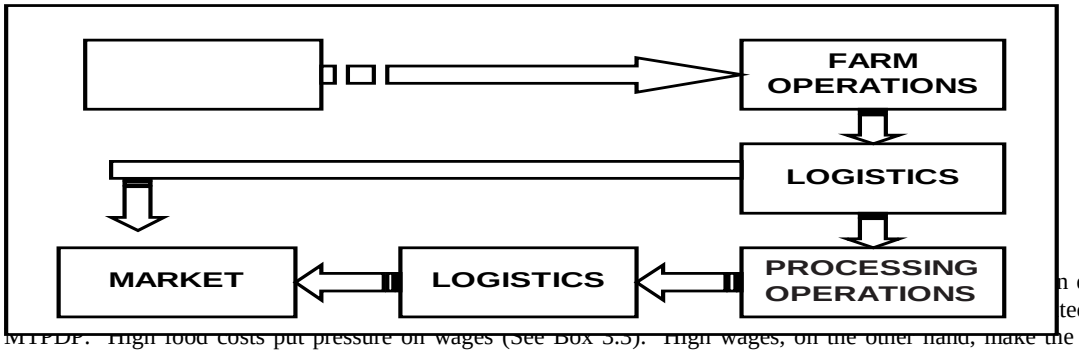
3.66 Following a supply chain framework, food costs can be *moderated* provided the following factors are addressed:

(a) Increased farm productivity at contained farm costs;

(b) Decreased post-harvest quantity and quality losses in the supply chain segments; and

(c) Reduced logistics costs from the farm to the ports or final markets.

Figure 3.15. SUPPLY CHAIN



n efficient
ted by the
MTPDP. High food costs put pressure on wages (See Box 3.5). High wages, on the other hand, make the country uncompetitive in labor-intensive industries and therefore, less investments. The latter affects the job creation in all sectors. Efficient logistics, however, do not come cheap. The Government (not just DA) must come to terms with better alternative criteria for farm-to-market roads, and other road construction.

Box 3.3

DA TO CUT COSTS OF WAGE GOODS BY LOWERING LOGISTICS COSTS AND INCREASE FARM PRODUCTIVITY

The government is reducing costs of agricultural goods such as rice and corn to benefit consumers, expand demand arising from low goods' prices, raise farmers' income, and create huge export earnings for price-competitive Filipino farm products.

Agriculture Secretary Arthur C. Yap said the DA will lower the cost of farm products. This, he said, can be achieved by cutting down on "unnecessary layers, middlemen, and unreasonable margins." "We will revise existing roadmaps to bring down commodity prices through efficient supply chain operations (from pre-production to processing and consumers)," he said.

Yap noted that DA's value or cost-chain analysis showed that rice's production cost can be cut from P9.46 per kilo to P7.77 per kilo by providing farmers with credit for certified seeds and fertilizers and by rehabilitating irrigation facilities which will bring down cost from P0.16 to P0.14 per kilo.

Rice price reduction will also come from the use of balanced fertilization or shift from inorganic to organic fertilizer which will lower fertilizer cost from P0.95 per kilo to P0.77 per kilo. Integrated Pest Management (IPM) will cut pesticide cost from P0.54 to P0.12 per kilo.

Moreover, corn's current cost for consumers is P11.05 per kilo, consisting of P5.09 per kilo production cost, margin of P2.75, and post production cost (shelling, drying, hauling, trucking, materials, labor assemblers' margin) of P2.21 per kilo. But this can be brought down to P9.73 per kilo through the use of hybrid corn seed which will bring down production cost to P3.79 per kilo from P5.09 and by eliminating informal fees of P0.02 per kilo in the distribution system.

"Corn impacts on livestock production as 65 percent is spent on feeds. We have to produce corn efficiently, then process them to feedmills and end-users (livestock raisers), " he said.

In fisheries, the fault lies on the profit margins by many marketing layers.

In fisheries (tilapia, bangus, galunggong), profit margins set by marketing layers (wholesalers, brokers, viajeros) account for more than 20 percent of retail price. We have to think of creative ways to reduce mark-up of these layers like establishing lead prices for fishes," he said.

To cut transport cost and prevent post-harvest loss, DA tied up with the Metro Manila Development Authority that exempted food and vegetable delivery vehicles from the number coding scheme.

Source: Melody M. Aguiba. Business Bulletin, Manila Bulletin, January 9, 2005

3.68 In summary:

Investment Climate

(a) There is urgency for the government in addressing issues and concerns cited by the Global Competitiveness Report;

(b) In particular: the need for definitive implementation plan to address three key institutional issues: corruption, respect of contracts and rule of law; and

Agency Plans

(c) The agency plans (DA, DENR, and DAR) are the right venues to address the more detailed strategic thrusts and programs. Certainly, area targets will have to be refined considering commodity markets, agro-climatic conditions and profitability.

3.69 The private sector will certainly play the major role in agribusiness development. There is therefore for the Government need to specify the environment that will provide a sound investment climate.

4. BARRIERS TO PRIVATE INVESTMENTS

The Need for Private Investments

4.1 The private sector is the engine of economic growth in the Philippines. This was, in no small measure, discussed in Chapters 1 and 3. It must be reiterated that it is the private sector that invests and takes risks. Private investment is the main driver of growth, job and income creation which fits hand-in-glove with the goals of the MTPDP. In the Philippines, nearly 80 percent of the gross domestic investments are made by the private sector. The World Bank's Private Sector Development Strategy Report (2002) states:

*"Private sector development (PSD) is about promoting growth, reducing poverty and helping people improve their quality of life… Private initiative, unleashed in competitive markets, is key to promoting growth and poverty reduction, in parallel with public sector efforts.****…. Sound government policies that provide room for private initiative and set the regulatory framework which channels private initiative that benefit society as a whole, are critical. This, in turn, requires institution-and-capacity building*** *(Underscoring by the author).*

PSD is critical to poverty reduction in two major ways. First, private markets are the engine of productivity growth and thus, create more productive jobs and higher incomes. Second, complementary to government roles in regulation, funding and provision, private initiative can help provide basic services that empower the poor by improving infrastructure, health and education…"

The Need for a Sound Investment Climate

4.2 If private sector has to invest, it needs a favorable environment and that environment to be sustained. Certainly, from the standpoint of the investors, the presence of a functioning market is key. However, there are many countries in Asia with functioning markets. In a region that competes for investors' funds, a sound and supportive environment is a must. The key features of a sound investment climate include: a sensible governance system that allows firms and farms to pursue productive activity without harassment; contracts and property rights to be respected and corruption to be reduced. Equally important is an infrastructure that allows private entrepreneurs to operate effectively (World Bank, 2002).

4.3 Moreover, a sound financial sector allows firms to enter market and operate effectively. Key to effective markets is an investment climate that provides: a) sound rules for the market, b) the expectation that the rules will be adhered to by market participants and the state, and c) physical access to the market. Macro-economic stability, well-defined property rights, a sound judicial and contracting system, a reasonable level of certainty about government policy, functioning financial institutions and good physical

infrastructure, such as transport system, are all ingredients of a sound investment climate (World Bank, 2002).

4.4 Participation in domestic markets is important, but so is access to international markets. Better integration with the global economy facilitates the flow of goods, capital, technology and ideas. It facilitates the acquisition of good practices and expands the space in which entrepreneur talents can flourish. (World Bank, 2002). In a global trading regime, it is expected that the WTO ensures that rules are observe and trade disputes are resolved.

4.5 The Philippines Agriculture and Fisheries Modernization Act (AFMA) of 1997 mandates that in order to accelerate rural development:

…The government intends to (a) improve the effectiveness of public sector interventions in the rural sector, including service delivery and capacity building programs for LGUs; (b) ***mobilize private sector investments in agriculture and fisheries*** *(underscoring by the author); (c) encourage value-added technology-based activities..; (d) promote equitable access to productive resources, particularly land through agrarian reform; and (e) promote sustainable management and use of natural resources by promoting environmentally sound practices.*

4.6 In the Philippines, providing a sound investment climate is a primordial concern of the private sector. A 1996 report identified location endowment, natural endowment, private sector-LGU cooperation; and presence of "development champions" as principal elements in attracting private investments (Box 4.1).

Box 4.1

PRIVATE INVESTMENTS CRITERIA

1. **Location Endowment**
   - ③Nearness to sufficiently large growing regional or provincial markets.
   - ③Access to good inter-island port or international airport to sell to inter-regional and/or export markets.
   - ③Presence of economies of scope (existence of support industries and services).
2. **Natural Endowment**
   - ③Agro-climatic and resource endowments that provide potential for expansion of production via increasing productivity, diversification and resource exploitation.
   - ③Presence of existing raw materials in crops, fishery and forestry.
3. **Private Sector-Local Government Support and Cooperation**
   - ③Rate of local investments/reinvestments.
   - ③Organizational maturity and effectiveness of business groups, non-governmental organizations and people's organizations.
   - ③Private sector-local government cooperation, including unity in strategic visions.
4. **Presence of Development Champions**
   - ③Presence of dynamic private sector firms.
   - ③Pro-active business and public leadership.

Source: Philippines: Promoting Equitable Rural Growth. Volume I Project File: Agro-Industry and Rural Value Added Component by Broadwith and Dy, 1996. Processed.

4.7 Another report stressed that private investment is the key factor in reversing the slow growth of Philippines agriculture in the 1980s and 1990s. Investments must flow into the sector not only to increase productivity of existing stock of capital, but more so

to reverse the depletion of aging stocks, such as tree crops (World Bank, Tree Crops for Rural Development Study, 2000).

4.8 Meanwhile, a key informants' survey of Mindanao, Luzon and Visayas agribusiness players conducted in November/December 1999 survey revealed interesting results. Most of the respondents indicated they have invested in the past five years (*Note: 1994-1999*). The bulk of the investments went to Mindanao. However, on the aggregate, the only factor identified favorable to investments in the past five years was a growing domestic market. **Inter-regional comparison indicated that access to land was found important in Mindanao and Luzon** (underscoring by the author). Growing export market was also cited by Mindanao respondents. It was distantly followed by better information. Trade liberalization rated third but it was a borderline rating. The rest, (a) access to land, (b) access to good human resource, (c) growing export market, (d) access to financing, (e) government incentives, (f) peace and order, (g) supportive LGU, and (h) better infrastructure, in that order were considered important**.** Their low ratings indicated that the investors are not satisfied with progress in these factors (World Bank, 2000).

4.09 The respondents felt that the key result areas that must be addressed to promote investments are: (a) clear and consistent government policies; (b) infrastructure; (c) government bureaucracy; (d) access to credit; and (e) peace and order, in that order. Also considered important are: incentives, agrarian reform, access to information, extension services, and local governance, also in that order. What is, perhaps, not obvious is that the distortions in the land markets have discouraged investments not only for existing owners who could not access credit but also for potential investors (small to medium to large) who could not buy land. The survey revealed that investment-friendly environment is primordial to the growth of agricultural investment. Moreover, public investments, say infrastructure, have complementary role with private investments. In many respects, they have also a leading effect (World Bank, 2000).

4.10 The responses had inter-regional nuances. Luzon respondents rated eight out of 11 factors most important: infrastructure, CARP, clear and consistent policies, local governance, R and D support, access to credit, peace and order, and the bureaucracy. Visayas respondents listed seven factors: clear and consistent policies, infrastructure, R and D support, access to credit, incentives and access to information. Mindanao respondents cited only four: clear and consistent policies, access to credit, peace and order, and infrastructure. Meanwhile, respondents with two or more investment sites listed only two: clear and consistent policies and CARP (World Bank, 2000).

4.11 The report indicated that there is a need to focus on priority strategies to promote expanded sector investments. These strategies include: (a) improving policy and legal environment; (b) developing infrastructure; (c) removing distortions inland markets; (d) minimizing bureaucratic red tape; (e) enhancing access to financing; (f) providing support to R and D; (g) enhancing access to market information; and (h) promoting peace and order (World Bank, Philippines: Rural Development and Natural Resource Management, 2000)

4.12 In a review of Philippines rural development strategy by AusAid, it cited similar barriers or policy impediments. Among the factors cited are shown in Box 4.2.

Box 4.2

KEY POLICY AND INSTITUTIONAL FACTORS AFFECTING THE GROWTH OF PHILIPPINE AGRICULTURE AND RURAL DEVELOPMENT

- The continued equation of food security with food self sufficiency, leading to skewing of incentives in favor of much greater allocation of land to rice and corn than are consistent with the country's comparative advantage. These policies also support a range of environmentally unsustainable farming practices, such as clearing of upland forest for the cultivation of low-value corn.
- The Comprehensive Agrarian Reform Program, which has created considerable uncertainty and deterred development of a functioning market for agricultural land and of the use of land as collateral for reform beneficiaries, thus discouraging investment in many aspects of agriculture.
- Monopolistic control of seaports, combined with cabotage laws, which raises costs of inter-island transport and delays integration of domestic markets for agricultural products. The structure of sea and air transport infrastructure has also perpetuated inefficient routing structures for agricultural exports from southern islands.
- Restrictive financial sector regulations, which lead to bias against long-gestation investments [e.g., tree crops], combined with inappropriate measures to force lending to agriculture [the Agri-Agra] Law which serve mainly to raise costs of intermediation or direct financial resources in favor of real estate development.
- Erratic and inconsistent rules and regulations affecting logging, which reduce incentives for agro-forestry.

Source: The Philippines: Rural Incomes Strategy and Program Identification. AUSAID Report, c.2001.

4.13 A prime example of policy impediment to increased productivity is the regulations whereby farmers pay a fee to receive permission from PCA to fell coconut palms for replanting, conversion to another crop, timber or other purpose. This regulation is instrumental in deterring replanting with higher-value coconuts or other crops and

leads to about 30 percent of agricultural land being permanently under low productivity and usually very senile trees (AusAid, c. 2001).

BARRIERS TO PRIVATE INVESTMENTS

4.14 Chapter 3 conducted a survey of the forces affecting a country's competitiveness as well as the business environment the private sector faces. An attempt was made to benchmark the Philippines with its neighbors.

4.15 This Chapter will dwell on several strategic concerns of investors in agribusiness. This finds importance on the fact that the MTPDP will heavily rely on private investors to develop 2 million ha of new land, generate at least 2 million jobs, and, in turn, propel agriculture to grow by 4 to 5 percent a year. The must-do ranges from the challenge of amending the constitution, amending certain laws, investing in infrastructure, and reforming governance. The first two tasks are tough measures but they have to be done. They are so important that they can no longer be hidden under the rug so to speak. Other Asian countries have made the strategic steps for reform and in attracting some of investments, or have, for good reasons, never tried political expediency in contrast to the forward-backward policy making in the Philippines. In Mindanao, investors have cited these factors (Box 4.3).

Box 4.3

LISTENING TO A MINDANAO INVESTOR

Key Concerns: infrastructure, governance, peace and order, financing

We have been in agribusiness for three decades as a grower for a multinational brand. As you know, the multinational brand expanded because of markets and profits. The big guys – Dole, Del Monte Fresh, and Chiquita – can afford to establish banana plantations anytime. What the World Bank might want to consider is to help small and medium sized growers (50 to 100 hectares) and in future help us become market players. In Latin American countries, the growers have been sending bananas directly to the markets in the USA and no longer pass through the MNC channels. The most successful here is Lapanday Group which has the financial strength.

From our experience, the project sequence is as follows:

Market. The company obtains a go signal from an MNC buyer and assurance of a guaranteed market. They also had confidence in our technical ability to manage a large scale farm.

Site. The company identifies an area which passes a certain criteria (soil, water availability, climate, social aspects, infrastructure, peace & order, etc.)

Profitability. We had an idea on the project's profitability.

Financing. and then we approach the banks.

Governance: An example is that a company wanted to open a plantation in one province. The indigenous people were very much willing to start the project, but the company came under fire from local DENR, government permits (the bureaucracy), as well as some NGOs who basically did not want the project to start. Their issues ranged from potential effect on the environment, encroachment of tribal lands and even some reputedly which are tribal burial grounds, etc. Somehow, after so many public hearings, the company was able to satisfy all these issues and they are now planting bananas.

The sites for development of banana farms are usually not near the main roads, so infrastructure really becomes a problem. The multinationals used to fund the gravelling of these roads, but less so now with dispersed farm areas. Road quality has been related to fruit quality. What export companies do is to check at random some banana boxes which arrive at the port, and they do sample quality readings. Poorer quality fruits came from the farms with not-so-good road networks.

Peace and Order. With banana plantations in the hinterlands, you can be sure that some insurgents, particularly the NPAs are always nearby. One farm was attacked by the NPA three times (twice in the 80s and once in 1990). Fortunately, the military has now set up more detachments in the area. We also formed our own security force, an added cost. But the key here is to employ people from the locality where the farm operates, a philosophy which we have now adapted for our new expansion farms. If these insurgents can see that people have jobs and can eat three square meals a day, then they will lie low harassment/ extortion activities.

Some investors will think twice on investing if one of the conditions is unfavorable. After all, nobody wants to go to farm with a fear of being kidnapped anytime. In our case, we are still fortunately able to roam at the farms without heavy security since we do not have enemies.

We believe that when the basic issues of land, water, roads, peace and order, community acceptance, etc. are addressed then you can go to the financing issues. These are all necessary ingredients in making a farming enterprise successful. I believe that presence of these favorable conditions will also mean better chances of recovering investments, (i.e. paying the bank loans). Some classic failures in the banana industry were due to: poor management, lack of competent technical personnel, internal company problems, and poor soil selection (lack of scientific soil analysis before starting the project, perhaps). Otherwise, I believe it has still been a profitable business, so far, for most growers in Mindanao.

- *A Mindanao Investor*

The Barriers

4.16 An investor is both a risk-taker and risk-minimizer. His screening criteria are not simple. He parts with his money in expectation of long-term returns higher than what he can get from "risk-free" Treasury bills or bonds. In a developing country, investors face tough hurdles and these can increase his cost of doing business. The role of government (for the common good of society) is to encourage existing investors to spend more and for new investors to part with his money. If the former do not invest, it is difficult for the latter to lead. Returns can be long coming depending on the type of investment.

Table 4.1 BARRIERS TO PRIVATE INVESTMENTS (Not necessarily in the order of importance)

FACTOR	DETAILS
1. ACCESS TO PUBLIC LANDS	• 60:40 domestic ownership (Section 2, Chapter XII of the Constitution)
	• 25 + 25 years term of lease(Section 2, Chapter XII of the Constitution)
	• Tenurial instruments limit on crop mix
	• Frequent changes in forestry policies
2. ACCESS TO PRIVATE LANDS	CARP provisions on:
	• Land ownership ceiling
	• Transferability and holding period
	Uncertainties of slow CARP implementation
	Effects of the above on land consolidation and collateral value of agricultural lands
3. INFRASTRUCTURE	• Construction and maintenance of access infrastructure (roads and bridges from farm areas to barangay center to trade center to port)
	• Availability production infrastructure: irrigation, water supply, and reliable power.
	• Quality of infrastructure (related to regular and periodic maintenance of infrastructure)

FACTOR	DETAILS
4. LOCAL GOVERNANCE	• Limited development outlook of LGU officials
	• Misuse of IRA
	• Lack of cost-sharing by LGU in infrastructure and agriculture projects
	• Discontinuity of local policies due to frequent elections
5. ACCESS TO MARKET-BASED LONG-TERM FINANCING	• Limited supply of loans for long gestating crops
	• Lack of appropriate on grace and repayment periods
	• No capitalization of interest during the crop gestation period.
6. GLOBAL MARKET ACCESS	• Non-tariff barriers on export of banana and pineapples to some countries
	• Discriminatory tariffs on export of canned tuna to EU
	• Lack of bilateral fishing rights to support domestic tuna industry (Palau, PNG, FSM, and Kiribati – all Pacific countries)
7. PEACE (LAW) & ORDER	• Perceived risk to life and property
	• Theft of agriculture produce and inputs
	• Tolerance of local officials of lawless elements
8. CORRUPTION	• Irregular payments to various government agencies
9. CONTRACTS & LAW	• Favoritism in decision of government officials • Judicial independence • Property rights • Organized crime

Source: Dy, Rolando (2004). Rural Growth Revisited . Mindanao Working Paper. Processed:
Dela Pena, Umali, and Mercado (2004)
World Economic Forum (2004).

Access to Land

4.17 **Public Lands**. Public lands (15.8 million ha) comprise over half of the land area of the Philippines. Most of these are classified as *forest* lands. However, as of 1997, only 5.4 million ha were forested, barely 0.8 million ha were old growth forests, and 2.7 million ha residual forests (DENR, 2002 Philippine Forestry Statistics) A large part of the "timberland" are actually grass lands.

4.18 Several elements of public land policies affect the investment climate. These are:

(a) The Constitutional preference for domestic nationals (the 60:40 rule) in the exploitation of natural resources;
(b) The 25 + 25 years limits on leases;
(c) The limitations on land use under various tenurial instruments; and
(d) Frequent changes in forestry laws.

4.19 The Constitutional bias for domestic ownership cuts across all avenues of investments in natural resources: forestry, pastures, fishponds, and mining. The

provision has a long history and is well-meaning. Unfortunately, Filipino nationals have limited access to large and long-term financing for the development of long term crops, specifically timber trees. In the process, many lands are underutilized at best. As in industrial projects, foreign investors not only bring financing; they also provide markets, technology and technical and managerial skills for large scale operations. By contrast, the more liberal forestry laws (forest ownership of forests) of New Zealand have made the country expand its forest cover and transform the country into major forestry products exporter (Ref: New Zealand Embassy, undated). Stable forestry policies have also transformed Chile as a major forestry products exporter by encouraging investments in tree plantations.

4.20 The Constitutional land limit has long discouraged large-scale tree crop development in Mindanao in contrast to Malaysia and Indonesia. The 1935 Constitution provides that corporations can own up to only 1,024 ha of agricultural lands. As a result, few multi-nationals engaged in rubber development in the 1950s to the 1970s invested in the Philippines. Aware of this limitation, the government created the National Development Company, a public company that can own large tracts of land. NDC, in turn, leased lands to foreign investors such as Del Monte about 8.000 ha (c. 1929), Dole about 8.000 ha (c. 1964), and Filipinas Palmoil Plantations, 8,000 ha (c. 1980s). This land ownership limit was later validated by the 1973 Constitution. This proviso contributed to the slow (and smaller scale) development of oil palm, rubber and other tree crops; By contrast, there were no (or less) stringent limits in Indonesia, Malaysia and Thailand where rubber and later oil palm plantations flourished.

4.21 And if the 1,024 ha limit was something investors could live with, the 25 +25 rule is deemed by investors as "short" for two cycles of rubber (70 years) and even of oil palm (60 years). Some even cite three cycles to even out the ebbs and highs of world prices of tree crop products.

4.22 **Action Required**: For the government to pursue its MTPDP goals, it needs to amend Section 2, Chapter XII (National Econony and Patrimony) the Constitution to allow foreign control of natural resources projects, provided the stakeholders in the area so wish (Box 4.4).

Box 4.4

The Philippine Constitution

Article XII: National Economy and Patrimony

Section 2. All lands of the public domains, waters, minerals, coal, petroleum, and other mineral oils, all forces of potential energy, fisheries, forests or timber, wildlife, flora and fauna, and other natural resources are owned by the State. With the exception of agricultural lands, all other natural resurces shall not be alienated. The exploration, development, and utilization of natural resources shall be under the full control and supervision of the State. The State may directly undertake such activities, or it may enter into co-production, joint venture, or production-sharing agreements with Filipino citizens or corporations or associations at least sixty per centum of whose capital is owned by such citizens. Such agreements may be for a period not exceeding twenty-five years, renewable for not more that twenty-five years, and under such terms and conditions as may be provided by law. In cases of water rights for

irrigation, water supply, fisheries, or industrial uses other than the development of water power, beneficial use may be the measure and limit of the grant.

Section 3. Lands of the public domain are classified into agricultural, forest or timber, mineral lands, and national parks. Agricultural lands of the public domain may be further classified by laws according to the uses to which they may be devoted. Alienable lands of the public domain shall be limited to agricultural lands. Private corporations or associations may not hold such alienable lands of the public domain except by leases, for a period not exceeding twenty-five years, renewable for not more than twenty-five years, and not to exceed one thousand hectares in area. Citizens of the Philippines may lease not more that five hundred hectares, or acquire not more than twelve hectares, thereof by purchase, homestead, or grant.

Source: The Constitution of the Republic of the Philippines Explained, 1991

4.23 The limits on what crops to plant in timber license agreements (TLA) before, and the Integrated Forest Management Agreement (IFMA) many years later, appear short-sighted. Only timber species and natural rubber are allowed. Today, the DENR regulations only allow up to 20 percent of IFMA lands to other tree crops, except rubber. Meanwhile, other instruments such as CBFM require development plans prior to approval by DENR. In addition, the advent of the Indigenous People's Rights Act (IPRA) in 2000 further complicated land access concerns. Prior rights of investors (e.g. pasture leases) have been questioned because of the law. Other DENR regulations can be as stringent. A DENR Memorandum Circular (MC) in August 2004 provides that all oil palm plantings in excess of one hectare would require an environmental clearance certificate! A feedback within the agency is that there is no consensus on the soundness of the MC.

4.24 There are at least eight or nine tenurial instruments covering "timberlands" covering almost 8 million ha, or 50 percent of all public lands (Table 4.2). The largest in area coverage are: community-based forest management project 5.7 million ha, timber license agreements (expiring soon) 691,000 ha, and industrial forest management agreements 697,000 ha. Tremendous potential exist in pubic lands for timber and tree crops development if land access is made easier and if the information on their status are made easily accessible. The DENR is the largest "land owner" in the country.

4.25 **Action Required**: DENR must clarify its developmental and regulatory functions as well as craft a clear, concise and consistent long-term policy on public lands development. A large part of job creation can come from public lands.

Table 4.2 Public Lands Tenurial Instruments (As of end-2002)

A. COMMUNITY-BASED FOREST MANAGEMENT (CBFM) PROJECTS
- No. of Sites: 4,956
- Project Area: 5.7 million ha
- Tenured Area: 4.4 million ha
- Number of HH Beneficiaries: 496,165
- Number of Peoples Organizations: 2,182

B. TIMBER LICENSE AGREEMENTS (TLA)
- Number of Active TLAs : 16
- Area: 691,024 ha
- Annual Allowable Cut: 51,003 cubic meters

C. INDUSTRIAL FOREST MANAGEMENT AGREEMENTS (IFMA)/ **INDUSTRIAL TREE PLANTATION LEASE AGREEMENT(ITPLA)**
- Number: 193

- Area: 696.740 ha

D. TREE FARM AND AGRO-FORESTRY FARM LEASES

Tree Farms

- Number: 166
- Area: 20.099 ha

Agroforestry Leases

- Number: 80
- Area: 90,707 ha

E. SOCIALIZED IFMA

- Number: 1,026
- Area : 29,593 ha

F PRIVATE FOREST DEVELOPMENT AGREEMENT

- Number: 90
- Area: 4.992 ha

G. FOREST LAND GRAZING AGREEMENTS AND PERMIT

- Number: 400
- Area: 115, 460 ha

H. RATTAN CUTTING CONTRACTS

- Number: 39
- Area: 508,663 ha
- Annual Allowable Cut: 43,416,504 lineal meters

TOTAL AREA: 7.8 million ha.

Source: DENR, Philippine Forestry Statistics, 2002

4.26 **Private Lands.** Private lands comprise about 10 million ha (2002 Agriculture Census) as compared to 14.1 million ha of certified alienable and disposable lands. A series of well-meaning land reforms since 1964 provided for asset distribution to tenants and lessees. The Agrarian Reform Code of 1963 (Republic Act 6344) called for owner-cultivatorship in rice and corn lands but little was accomplished in terms of distributing large estates (Hayami, Quisumbing and Adriano, 1990). Presidential Decree 27 of 1972 provided for land reform in rice and corn lands in excess of seven hectares. In the post-Marcos era, the Comprehensive Agrarian Reform Law of 1988 (otherwise known as CARP) as the name suggests a far-reaching coverage. All private lands, except qualified fishponds, livestock and poultry farms were covered. The land ownership ceiling for landowners was set at five ha, and for the beneficiaries, three ha. The beneficiary can only sell to another qualified beneficiary ten years after the land is fully paid for.

4.27 CARP, which has distributed large tracts of private lands, has benefited millions of tenants, farm workers, etc. However, it has discouraged private investments in commercial farms for several reasons:

(a) Uncertainties created by the slow acquisition process and questions on land valuation;
(b) The loss of collateral value of agricultural land following stringent transferability and beneficiary provisions; and
(c) The challenges of land consolidation for investments requiring larger lands (above five ha).
(d) The limit to land ownership even if the lands has been already distributed (See Box 4.5).

Box 4.5

ACCESS TO LAND AND AGRIBUSINESS INVESTMENT

The total demand for land by poor rural households greatly exceeds that available to the CARP, and the full implementation of the program cannot result in substantial increase in the land holdings of beneficiaries. About 3.7 million rural households are potential beneficiaries under the program, of which 1.7 million are already farming upland areas. However, the land available for CARP (not counting forests, public lands, or private lands between 5 and 24 hectares) is sufficient for fewer than 1 million families. In addition, CARP has other important implications, which have had an impact on incentives for undertaking rural investments.

First, slow implementation of CARP has distorted the land market.

Under the law, a landowner is allowed to sell directly to the market only that portion of his land which is retained; any land above his retention limit can only be sold to the government for agrarian reform purposes. As the landholding size increases, the impact on limiting land supplies becomes more severe, since the area beyond the retention limit which cannot be sold on the open market is greater. Thus the land market is no longer competitive in the rural areas.

In addition, slow implementation of CARP has eroded the collateral value of land.

Banks are unwilling to accept these lands as collateral due to the uncertainties associated with their value and eventual ownership. This has aggravated the already limited access of farmers to formal credit.

A well-defined and secure property right is essential to stimulate private investment. The slow implementation of CARP, by increasing the uncertainty of ownership and use rights and imposing limitations on the individual's ability to put his land to its optimum use, has resulted in low and declining farm investments, and correspondingly decreased agricultural productivity. In 1990, the Management Association of the Philippines undertook a survey of 39 respondents farming 72,000 hectares and employing over 50,000 employees. The study concluded that in the two years of implementation, CARP had reduced, and in certain cases, eliminated new agricultural investments, increased agricultural productions costs and almost halted agricultural employment growth.

Source: World Bank. Promoting Equitable Rural Growth. 1998

4.28 The slow land acquisition process due to complex factors (land valuation, lack of budget for landowners' compensation, resistance of landowners, bureaucratic inertia, etc) caused uncertainties to potential landless investors. Some are willing to lease lands or undertake growership contracts but land consolidation can be tedious. Banks have also shied away from lending to agriculture projects unless there are non-agri land collaterals as formal agriculture land markets practically ceased to exist. A major factor is that any natural or juridical entity cannot own lands in excess of the retention limit of five ha. Moreover, the **banks cannot warehouse lands in excess of five ha or sell the land to anyone unless he is a qualified beneficiary**. In addition, the cost of land consolidation (easier in the past) has increased as many landholdings have become small due to the three ha ceiling and subdivisions of inherited lands.

4.29 Senate Bill 206 filed by Senator Osmeña in June 2004 under the 13th Congress to address these concerns. The bill was filed in the previous Congress but was not fully acted upon. The current bill:

seeks to remedy this problem by allowing farmer-beneficiaries to sell, transfer, convey, lease, usufruct or mortgage the land. In this manner, the farmer-beneficiary is being given the economic decision on what to do with the land awarded to him. Farm-beneficiaries are allowed to dispose of their entire awarded land or

parts thereof. This will remove the restriction of the Department of Agrarian Reform prohibiting the disposition of only a portion of the awarded land and thus allow the farmer to dispose of that part of land that will satisfy his financial needs.

Also, lands which have already been redistributed pursuant to the Comprehensive Agrarian Reform Program, including those retained by the landowner may be sold, transferred or conveyed to any person, and said person shall no longer be subject to any limitation on the total area of lands he owns.

The social justice principle had already been served with the redistribution of the lands. This will allow the banks and other lenders to own lands, as a result of foreclosure, in excess of the 5-hectare limit.

The goals of agricultural modernization and rural development can only become feasible in a free market environment where individuals have freedom of choice in their investment and production decisions. The strictures imposed by the CARL stand in the way of such an environment obtaining in rural markets.

4.30 **Action Required.** Rally the private sector to advocate for the passage of an investment-friendly agrarian reform program.

Infrastructure

4.31 Infrastructure, in this report, can be categorized into two: access infrastructure and production support infrastructure. A key factor in agribusiness competitiveness is the efficiency of supply chain. An agri-food supply chain, as in other supply chains, is characterized by several competitiveness attributes. These are: cost, quality and reliability. Cost is the total cost of moving the product from the farm or factory to the ports or wholesale markets. It is the sum total of cost of transport, warehousing, refrigeration, shipping, post harvest losses, spoilage, etc. Quality is the product attributes demanded by the market players. Reliability is being present at required volumes at the right time and place. What is the use of a good and well-priced product if they are not available when the consumer needs it? For a Philippine product to be competitive in the global and domestic markets, the investors have to be aligned to these attributes. Competitiveness is measured by the competitors supply chain effectiveness.

4.32 Logistics costs matter. The higher the logistics costs, the lower the farm/factory price; and the higher the delivered cost of inputs. The cost of logistics can be a third of the final cost of the product to the buyer (DA Secretary Arthur Yap, November 2004 speech). Moreover, the speed of commodity transport and quality of infrastructure matter immensely for perishable produce. The Philippines has among the highest logistics costs because of poor transport network and inefficient ports and shipping. This is exacerbated by the archipelagic geography of the country which leads to multi-modal transport and handling of goods. According to experts, there are good lands in many parts of the country but remains underdeveloped because of inadequate access.

4.33 Utility costs also matter in storage and processing of agriculture products. More so for products which need a cold chain. High logistics costs plus high power costs have a dampening effect effect on competitiveness.

Table 4. 3 Infrastructure Endowment: Selected Asian Countries

	Roads Paved **(% of Total Roads)**	**Electric power, trans. and distribution losses (% of output)**	***Telephone cost*** **(Ave cost in US cents/min)**	**Internet Users (millions)**	**Internet Users Per 100 people**
Philippines	21.0	14	4.8	2	2.4
Indonesia	46.3	11.3	4.2	4	1.8
Malaysia	75.8	8.0	2.4	6.5	26
Thailand	97.5	7.9	1.5	3.5	5.4
Korea	74.5	5.2	1.7	24.0	49

Source: Von Armsberg, Joachim. Closing the Philippines Productivity Gap. 22nd National Quality & Productivity Congress. 14 October 2004. Makati City.

4.34 **Action Required.** Access infrastructure are public goods. The government and relevant LGUs coordinate with the private sector in providing infrastructure to good agribusiness investment sites particularly in 3rd to 6th class municipalities. The ODA community can consider rewarding LGUs with a good track record in attracting private investments specifically grants for infrastructure with good agribusiness potential.

Peace and Order

4.35 Peace and order are key concerns among investors. The threats to life and property make a destination unattractive. A good example would be some places in Mindanao. (Note: Some Mindanao investors in the area prefer the word "law and order." One key investor said: "No law; no order.") The lack of law and order can manifest in several forms: Theft of produce on farm which means higher cost of security; robbery of farm products and inputs or their cash proceeds while in transit; illegal taxes from various groups; and the lack of resolve of some local officials to solve the menace (Box 4.6).

Box 4.6

LISTENING TO A MINDANAO INVESTOR (II)

Key Concern: Law and Order

We have been Mindanao investors for decades. We have plowed back profits into our operations. We employ thousands. We have built access roads even in difficult terrain. However, security expenses can be significant. It averages about 1.7% of sales for our farms. Theft and/or vandalism can be a problem. Security cost can be as low as 0.7 percent or a high 4.5 percent of farm sales depending on the production stage (fruiting to harvesting).

- A Mindanao Investor

4.36 **Action Required:** The LGU can jointly craft with private investors a farm security plan, if at all feasible. Good roads also help deter lawlessness.

Local Governance

4.37 Local governance can make a great difference for investor-locators. The contrast is exemplified by the "investment intensity" of Bukidnon, Cagayan de Oro, Davao Gulf, and South Cotabato relative to other places in central and western Mindanao. (Box 4.7 and Annex C)

Box 4.7

PAGLAS, MAGUINDANAO

Success Factors: Development champion; Governance

In 1988, Datu Ibrahim Paglas III (*Toto*) became the mayor of Datu Paglas. The town was over-run with bandits and terrorists. Datu Paglas today provides a striking contrast. It is a peaceful place where employment opportunities have increased dramatically, and the once-half empty school is full of children. The town now boasts of a rural bank, and several *sari-sari* stores line the lesser streets of the town.

In 1994, Toto made contact with a foreign investment consortium which had investments in banana plantations in Mindanao and was eyeing expansion. When the investors first heard of Datu Paglas, they were highly skeptical. But encouraged by the dynamic young mayor, and the amount of land available, they made a commercial assessment. The potential was immediately apparent: limitless supplies of fresh water, very good soils, a ready supply of local labor and perhaps, most importantly, in Toto Paglas, they saw a strong and inspiring leader. In 1997, Toto having completed his three terms as mayor, set up the Paglas Corporation, while the investors established La Frutera Inc. Overseas investors from Italy, Saudi Arabia and the US put up the bulk of the financing. La Frutera then sub-contracted the recruitment of labor, the provision of security and the transport operations to the Paglas Corporation.

State-of-the-art drip irrigation was provided by an Israeli firm. Recently, the plantation broke the world record for the heaviest bunch of bananas. La Frutera directly employs 300 staff (with less than 100 workers coming from outside the immediate surrounding area). Paglas Corporation directly employs 700, with a further 400 in contract workers and suppliers. Toto has made sure that each family in the town has at least one member employed in the plantation or servicing companies. Some 20 percent of Paglas Corp. and La Frutera's employees are Christians, while 80 percent are Muslims, most of whom were former MILF combatants and battalion commanders. The investors describe their biggest challenges as being the security situation and ignorance in how to do business with Muslims. The culture and environment felt alien, even for those with many years of experience of investing in plantations in other areas of Mindanao. Without a doubt, the most critical condition which made this investment possible was the leadership and vision of Toto Paglas.

The Paglas Story shows that investment can promote long-term peace and political stability. There is a need to convince both external investors and local leaders within Muslim Mindanao that developing plantations is viable, and contributes to peace and stability. Many investors and business people have commercial interests in seeing a resolution to the conflict, and the case of Datu Paglas shows that one of the most effective ways in which to achieve peace and stability is, in fact, through mainstream commercial investment. The ARMM represents the largest area of undeveloped land in the Philippines. In Datu Paglas, a combination of visionary local leaders and far-sighted investors have managed to break the vicious cycle of poverty and violence which still characterize much of Muslim Mindanao. A recent report indicated that Paglas Corporation and La Frutera Inc are considering to invest $50-million dollars for the expansion of their banana plantation in Wao and Bumbaran towns in Lanao del Sur, both in ARMM. (A longer story is told in Annex C.6)

References: CSR Forum.com
Armando Sucgang, Growth with Equity in Mindanao (GEM/USAID) Program

4.38 Local governance (the good and the bad of it) can be seen in the:

(a) Utilization of internal revenue allotment (IRA);

(b) Continuity of local policies despite elections; and

(c) LGU and private sector cooperation.

Local governance is also reflected in the level of resource mobilization outside of IRA as well as speed of the local bureaucracy in granting business permits. LGUs can act as "development champions". (Box 4.8). A number of innovative projects with LGU participation are under implementation (Box 4.9).

Box 4.8

THE TALE OF THREE PLACES

Success Factors: The LGU as a Development Champion

South Upi is the corn belt of Maguindanao. It is about two and half hours by poor roads from Cotabato City. About 80% are indigenous peoples (IPs), some 15% Muslims, and 5% about immigrants. It relies solely on its internal revenue allotment (IRA) of P2.3 million a month. Corn generates about P400 million in direct and indirect economic activities. The 35-km road to Brgy San Jose that passes to several corn barangays is in terrible shape. But there are other complicating factors for South Upi. It is in political limbo since September 2004. The Comelec declared three rival candidates as elected mayors. The Acting Mayor is the president of the association of barangay captains. A major Mindanao bank was asked why there is no bank branch in South Upi, and the response was: *No law and order.*

Masiu, Lanao del Sur has good agriculture potential. It is about one hour from Marawi City. It has a large immigrant trader community in Metro Manila. Despite its agricultural potential, there is little investments in the town. The town has P2.6 million IRA a month. The previous mayor borrowed several millions from a commercial bank to buy heavy equipments with 20 percent of IRA pledged for the next five years. Three months after election, the heavy equipments have yet to be turned over to the new mayor.

Impasugong, Bukidnon is a large town with a land area of 107,000 ha and a population of about 30,000. It is 75 km (1.5 hours drive) southeast from Cagayan de Oro City and 30km northeast of Malaybalay. Bukidnon's capital. About 72% of the area has 18 percent and over in slope and mostly classified as timberlands. Some 18,600 ha are classified as alienable and disposable. About 17,000 ha are agricultural and corn is the major crop. About 80% of the population is IPs and Mayor Okinlay is one of them.

The town is an investment destination. It has about 20 commercial poultry breeders and growers. It also grows highland vegetables. In 2004, oil palm plantings started in the area. To date, there are about 250 ha and in 2005, another 300 ha is planned. The mayor has invested in heavy equipment to build and maintain roads. He has also offered to pay for the interest during the grace period of long term oil palm loans as growers can not afford to pay during the gestation periods.

Box 4.9

A MARKET DRIVEN, PRIVATE SECTOR-ORIENTED APPROACH

The Diversified Farm Income and Market Development Project (DFIMDP), a World Bank-supported project, is an innovative project. Its objective is to strengthen the capacity of the Department of Agriculture to provide market-oriented services to increase agricultural competitiveness and rural incomes. Given the deeply entrenched nature of many areas requiring reform, this process of institutional and attitudinal change will take time and sustained effort to achieve. Expected outcomes, must therefore be modest, but would include: (a) establishment of an up-to-date market information system serving producers and traders in four focus areas (CAR, Central Visayas, Western Visayas and Northern Mindanao), (b) a more transparent and demand-based system by which DA supports market investments, (c) streamlined and more effective regulatory services designed to ensure the Philippines agricultural products meet international standards; (d) greater emphasis on market factors in the design and implementation of DA's research and training programs; and (e) enhanced capacities for planning and better prioritization of budgetary resources for core functions of the DA. Progress toward achieving these project outcomes would be measured using the following indicators: (a) better client satisfaction with DA's delivery of market information, development services and market related investments; and (b) increase in the proportion of budgetary resources allocated to DA's core functions dealing with (a) market information and development services; (b) safety and quality assurance regulatory systems; and (c) market-linked technology development and dissemination.

The project has five components:

1. **Support for Market Development Services:** Capacity of the Agriculture Marketing Assistance Service (AMAS) would be strengthened to enable it to provide more effective market assistance and collaboration in market promotion, trade fairs, etc., with the private sector.
2. **Market Development Investments:** DA resource allocation for investments in rural roads and other rural infrastructure would be strengthened by sharpening the selection, approval and implementation criteria and procedures, to ensure more demand-driven, market-oriented investments are supported, primarily through local government units (LGUs) and producer groups.
3. **Strengthening Safety and Quality Assurance Systems for Market Development:** A key thrust would be the strengthening implementation capacity of DA's regulatory services, particularly in ensuring that international standards for safety and quality are met.
4. **Market-linked Technology Development and Dissemination:** Although technology development and dissemination must continue to play an important role in modernizing the agriculture sector, over the past five years, an average of only 6% of DA's operational budget has been spent on research.
5. **Enhancing Budget Resource Allocation and Planning:** The project would support the government-wide initiative on improvement of public expenditure management, a process that seeks to improve efficiencies in public resource allocation and utilization and better linkages between planning and budgeting.

Among the Project Implementation Covenants are:

- ***DA will adopt and thereafter implement the Operational Manual and the Implementation Procedures for the selection, approval and supervision of sub-projects under the Market Development Investment Component, in a manner satisfactory to the Bank.***
- ***DA will adopt and thereafter implement the Competitive Research Grant Manual in the selection, approval and supervision of research sub-projects, in a manner satisfactory to the Bank.***
- ***By March 31 of each year, commencing in 2005, the DA would annually review with the DBM, NEDA and the Bank, how its plan and budget submission for the following year reflects plans for allocating resources in support of achieving the goal of AFMA. This review would not substitute for the existing presentation and review processes of the DBM.***
- ***By May 31, 2005, DA would develop and thereafter implement an Action Plan to rationalize, and improve the cost-efficiency of the quarantine Services of BPI, BFAR and BAI.***

4.39 **Action Required.** There must be an incentive scheme by the ODA community for pro-active LGUs. This can be in the form of development assistance for access and marketing infrastructure, particularly for the resource-poor 3rd to 6th class municipalities.

Access to Long-Term Financing

4.40 Crops can be categorized into annuals and perennials. Annual crops such as rice, corn and most vegetables are planted and harvested in one year or less; perennial crops such as tree crops are planted and after the gestation period are harvested every year during its economic life. While access to financing is certainly tough for all agriculture projects, it is tougher for perennial or long gestating crops (LGC) (Box 4.10). According to a Land Bank source, the total lending to agriculture projects is about Php70 billion, of which barely P200 million is for LGC, large part of which for onlending.

4.41 Further, according to Llanto (2005), while exportable and commercial crops are able to obtain financing from commercial/private banks, "a serous gap remains with other types of high value crops such as long gestating crops like rubber and oil palm. Private banks have not provided financing for long-gestating crops. They are more comfortable financing short-term, high value crops, livestock and poultry." He added that while Land Bank has a policy to finance long-gestating crops, implementation has been hampered by the unavailability of long-term funds.

4.42 Long-term crops such as rubber, oil palm and timber species (i.e. gmelina and albizzia falcata) have domestic and export markets and when well-managed, they can be profitable. It is expected that funds should flow to good projects. Unfortunately, that is not the case in the Philippines where "market failure" prevails. By contrast, the rapid development of tree crops (oil palm) in Malaysia is attributed, in part, to the availability of long term financing. For land schemes, the Federal Land Development Authority (FELDA) and the Federal Land Consolidation and Rehabilitation Authority (FELCRA) lent to oil palm growers with five years grace period and payable from years 6 to 15, with interest payment capitalized during the grace period. In the earlier years (1970s and 1980s), the World Bank was the major source of long-term funds.

Box 4.10

PERENNIAL CROPS FINANCING

Serious shortage of long-term financing for perennial crops remains a significant constraint on the development of these crops, and on crop diversification in general. The financing of the replanting program for hybrid coconuts is an important case in point. For most of the last two decades, much of the official support for the coconut industry was financed through a levy on the sale of copra. The funds raised were used for price stabilization in the early 1970s, the acquisition of the United Coconut Planters Bank in 1975, and the establishment of the Bagsuk hybrid seed garden. Later, the levy was specifically intended to support coconut replanting. However, the major part of the funds collected were not used for the purpose originally intended, and individual farmers received almost no return from their contributions. The political passions aroused by that political scandal are still strong, and, at least in the short-term, limit the Government's ability to fund coconut replanting new levies or cesses. Similar constraints exist for rubber (about 40 percent of rubber area in Mindanao needs replanting), oil palm (there is potential for an outgrowers' program in Mindanao), and line plantings of industrial trees (e.g. gmelina arborea, and eucalyptus deglupta) as well as fruit trees. These are vital raw materials for

downstream agro-industries in rural areas. Commercial banks typically offer a three-year grace period for the repayment of loans for the above crops (Section 79 of the General Banking Act (RA 337) of 1949 provides for a maximum grace period of three years for loans, and even the High-Value Crops Law (RA 7900) of 1995 did not amend Section 79 of the General Banking Act). This is totally inadequate, since these crops require a long gestation period. However, the Agriculture and Fisheries Modernization Act of 1997 stipulates that agriculture and fisheries projects with long gestation period shall be entitled to a longer grace period in repaying the loan based on the economic life of the project (Section 24 of the Act). It should be noted that countries like Malaysia, Thailand and Sri Lanka have planted and replanted significant rubber areas through cess funds. The use of the banking system for financing planting or replanting of perennial crops has been less successful in developing countries. Given the political difficulties in establishing a system of levies or cesses, and the inability or unwillingness of banks to finance smallholder perennial crops, the issue is complex in the Philippines (as in many other developing countries), and the revised medium term agricultural development plan should devote serious attention to this issue and explore various options for the establishment of effective financing mechanisms for perennial crops.

Source: World Bank. Promoting Equitable Rural Growth. 1998

Box 4. 11

PLANTING AND PROCESSING TIMBER TREES

Success Factors: Value Adding

The RNF Summit Woodworks is located in Makilala, North Cotabato province. RNF turns an average of 30,000 board feet of farmed trees into woods pallets, doors, jambs, windows, and mouldings every day. The wood pallets are sold to multinational and local firms like *Unifrutti, Dole, Del Monte, and Lapanday Group* for banana and pineapple exports. These Davao-based firms alone require 1.5 million pallets a year. RNF churns out 1,000 pallets a day. An estimated 60 percent of the pallets are exported outright along with the fruits while 40 percent are recycled. Pallets, which are usually used up to five years.

The owners, Ramon and Mary Anne Floresta, are the first recipients of Land Bank's Entrepreneur Awards in Central Mindanao. RNF's preferred hardwood is gmelina, which Ramon Floresta lauds for its high quality and low moisture content. Floresta, a veterinarian, inherited his first nine hectares of rubber trees in the late 1980s. His plantings of 150 ha of gmelina were self-financed. .

Floresta estimates that the wood industry will run out of material in five years unless serious tree farming efforts are started soon. "When we began operations five years ago, we could source wood from only a few kilometers away." Says Floresta, "All we need was a cart." Now the wood is farther and farther away as there are fewer farmers. Presently, RNF has 150 hectares planted to gmelina. But it takes six years for subsequent crops.

Still, Floresta makes a strong case: while it takes 10 years to recover one's investment in a hectare planted to rubber trees, and seven years for a hectare planted to oil palm, gmelina can yield a "900 percent return on investments" after eight years if wood is processed.

As President of the Mindanao Tree Farmers and Wood Processors Association (MTFWPA), Floresta has led the campaign to promote, rehabilitate, and establish commercial tree crops. MTFWPA is working to promote both "backward and forward integration"- that is, planting trees while improving wood products. Gmelina is now also being used for laminated gmelina boards, P25 million worth of which were exported to Japan last year. Wood shavings are now being used as fertilizers in RNF's tree farm. Currently, RNF employs about 450 workers.

Expansion of the wood supply would require long term financing either from equity or loans.

Source: Newsbreak, September 27, 2004

Armando Sucgang, GEM/USAID Program

Box 4. 12

BENCHMARK OF BEST R & D IN ASEAN RELEVANT TO ASEAN FOOD AND AGRICULTURE

Success Factors: Sustained funding for R &D; Private sector role in R &D

The benchmark countries in agriculture R & D in tropical Asia include Malaysia and Thailand. Malaysia's Rubber Research Institute (RRIM) and Palm Oil Research Institute (PORIM) are second to none in the world. Highly productive clones have been produced and have found their way into many countries, i.e. RRIM 600 and later the RRIM 900 series. These elevated Malaysia in the cutting edge of varietal improvements and, in turn, made the country the global player in many ways. The research is funded from rubber cess and palm oil export tax. Thailand is a major shaper for tropical fruits (pineapple, durian, rambutan, longan, mangosteen, etc) as well as rice, rubber, tapioca and shrimp. R&D in Thailand is strongly supported by the government; and by the private sector.

Privately-funded R & D has success in the Philippines with respect to Cavendish banana, pineapples, asparagus and solo papaya. The Philippines is a global player in banana and pineapples. Further, since 1997, the private sector-led Philippine Sugar Research Institute is active in R&D. It is instrumental in raising yields and has contributed to the "happy problem" of excess domestic supply in 2004.

Source: A Background Paper for the Strategic Plan of Action for ASEAN Cooperation in Agriculture and Food (2005-2010). International Trade Strategies Pty. Ltd (Australia) and Center for Food and Agri Business, University of Asia and the Pacific (Philippines), July 2004.

4.43 **Action Required**. The Land Bank Board should review its lending strategies on lending to long-term crops subject to the standard project evaluation criteria of market, technical, and financial viability. It needs to create a task force to help field units and conduit banks to evaluate projects. In addition, Land Bank should also explore the possibility of using official development assistance (ODA) funds as a source of long-term finance for long-gestating crops.

4.44 **Microfinance**. Microfinance is an increasingly important factor in rural growth and gender equality. Small businesses requiring Php5,000 to Php30,000 in loans can be found in many communities. (See Box 4.12a and Box 4.12b). They are also efficient job creators. Farm employment alone is not adequate in solving the rural unemployment; non-farm and off-farm employment must be given equal or even greater impetus.

Box 4.13a

Microfinance for Rural Development

Microfinance (MF) has evolved as an economic development approach intended to benefit low-income groups. The term refers to the provision of financial services to low-income clients, including the self-employed. Financial services generally include savings and credit, and some MF organizations also provide insurance and payment services. MF activities usually involve:

MF clients are typically self-employed, low-income entrepreneurs in both urban and rural areas. Clients are often traders, street vendors, service providers (hairdressers, tricycle operators), small restaurant operators, artisans and small cottage industries. Usually their activities provide a stable source of cashflow and income (often from more than one activity).

MABS Overviews. *The Microenterprise Access to Banking Services (MABS) program is an initiative designed to accelerate economic transformation by encouraging the rural banking industry to significantly expand the microenterprise access to MF services. To do so, the MABS Program assists client rural banks to increase the financial services they provide to the ME sector by providing MF technical assistance and training to rural banks. Trained banks in turn offer MF loan and deposit services specially tailored to ME clients.*

Since its inception in 1998, the MABS Program has helped more than 200 rural banks/branches. While the MABS Program operates throughout the Philippines, most MABS activities are focused on Mindanao. Significantly, there are over 780 rural and cooperative rural banks covering over 85% of the municipalities and cities of the Philippines. These banks are culturally and geographically close to the potential clients that comprise the ME sector. It has been shown that limited access to financial services constrains economic growth. This is especially true for lower socio-economic groups, including ME, which must turn to moneylenders, pawnshops or lending investors for credit instead of formal institutions for credit. The MABS Program targets these lower socio-economic groups and microentrepreneurs by working with rural banks to reach such groups in a profitable, but equitable manner. The Program is funded by the U.S. Agency for International Development (USAID), and is being implemented in partnership with the Rural Bankers Association of the Philippines (RBAP). Philippine Government oversight of the Program is provided by the Mindanao Economic Development Council (MEDCo).

The MABS Program has become a successful model for increasing microenterprises' access to financial services and servicing poor clients in rural areas of the Philippines. MABS Service Providers (MSPs), private consulting firms that have been trained by the Program and accredited by RBAP, are presently providing MABS technical services and training to rural banks on a fee basis.

In a related initiative, the World Bank private sector arm, the International Finance Corporation, has investments in Planters Bank. Planters has a microfinance subsidiary, the Micro Enterprise Bank.

(See Annex C. Box 14)

Box. 4.13b

MICROFINANCE: SUCCESS STORIES

Business	Client	Location	Initial Loan	Rural Bank
1.Grass straw weaving for banig (mat)	Ms. Mary Joy Bulay-og	Tagum, Davao	Php 3,000	RB Montevista
2. Softdrinks distribution	Mr. Toten Sambutuan	Datu Paglas Maguindanao	Php 30, 000	RB Datu Paglas
3. Bread & Fish Delivery	Ms. Elma Garan	Santo Tomas Davao	Php 15, 000	RB Sto. Tomas
4. Peanut biscuits	Ms. Josephine Alima	Isabela, Basilan	Php 25, 000	First Isabela Cooperative Bank
5. Market Stall	M/M Ernesto Sunico	Tacurog City, Sultan Kudarat	Php 25, 000	RB Tacurog
6. Vegetable Stall	Mrs. Emilia Montinola	San Carlos City, Negros Occidental	Php 10, 000	RB Victorias
7. Snack Foods	Victoria & Carlos Lim	Tandag, Surigao del Sur	N. A.	RB Catilan
8. Sari – Sari Store	Mrs. Nora Huyong	Tausug, Sultan Kudarat	Php 5, 000	RB Tausug
9. Market Stall	Mrs. Vergie de la Rosa	Cabadbaran, Agusan del Norte	Php 15, 000	Green Bank of Caraga
10. Fish Vendoring	Mrs. Candelaria Laher	Abuyog Leyte	Php 30, 000	RB Dulag
11. Fish Wholesaling Fishing	Mrs. Rosemarie Nuñez Rabaya	Dagocdoc, Surigao del Sur	Php 10, 000	RB Cantilan
12. Coconut Lumberyard	Mrs. Tessie Cabalida	Dipolog	Php 20, 000	RB Dipolog
13. Peddling of Clothes	Mrs. Alsie Angni	Tandag, Surigao del Sur	Php 3, 000	RB Cantilan
14. Tricycle	Bembiano Estrada, Jr.	Cantilan, Surigao del Sur	Php 40, 000	RB Cantilan
15. Market Store & Mini Grocery	Mrs. Natividad Regis	Abuyog, Leyte	Php 5, 000	RB Dulag

Source: RBAP-MABS Website (www.rbapmabs.org)

Box 4.14

MICRO ENTERPRISE BANK

Micro Enterprise Bank (MEB) is the first Microfinance Oriented Thrift bank in Mindanao and the second in the Philippines. Its Head Office is located in Davao City and it currently has one full branch and two credit outlets: one in Toril and one in Tagum. With the support of the International Finance Corporation and Planters Development Bank, it was incorporated in 2001.

The population in Davao is now over a million, with registered businesses at the city proper alone at about 25,000. There's a huge concentration of microenterprises at the public markets, particularly in Bankerohan and Agdao public markets. MEB has redesigned its approach to better suit the needs of each target group. Over twelve months of implementing this approach, the loan portfolio quality has tremendously improved, with client retention rate growing from 45% to 91%.

As of December 31, 2004 the loan portfolio balances stood at Php53million, the composition of which is:

Micro Business Loans	49%
Banana Growers	36%
Salary Loans	14%
Transport drivers and operators	1%

The bank started extending micro loans to banana growers with standing crops, in the middle of last year. This type of facility is badly needed by the growers, as the integrators already stopped from extending cash advances directly to them since two years ago. This change in policy has forced the poor contract growers to run to the informal money
lenders for their financing needs.

The transport sector is also very promising, considering the size of the sector (11,000 registered operators). The bank designed a credit facility for this group; however, the outreach is growing very slow. The main difficulty lies in the system of collection as this group is always mobile.

The microfinance market in the Davao region is quite big but microfinance oriented banks like MEB could hardly get a bigger share in the market due to the following constraints:

- **Very stiff competition** – Just like any other city in the Philippines, the informal money lenders get the biggest chunk in the market. This is due to the fact that they can afford to respond very quickly, considering that they have no regulatory standards to worry about.
- **Very stringent regulations of the BSP** – The provisions of Circular 409 are not friendly to microfinance-oriented banks. In the first place, the PARR standards are very stringent and, the provisioning required for the delinquent accounts are twice as high as the non-micro loans.

Moreover, the government has been urging banks to allocate some of their resources in servicing the financing needs of the microenterprise sector. This is one of the ideas behind the passing of the Barangay Micro Business Enterprise (BMBE) Law. This law is supposed to encourage formal lending institutions to open their doors to the microenterprise sector, providing incentives to both the micro business operator and the bank that provides the financing. However, implementation has been very slow.

There is also a growing concern on the direct distribution of micro loans done by the Quedan Guarantee and Fund Board. The microfinance council of Davao is preparing a position paper which will be addressed to the office of the President, questioning the activities of this agency which is supposed to be doing purely guarantee services for agriculture production loans.

Finally, the lack of affordable means to establish good Management Information System on an expanded area of operations is also a growing concern among microfinance oriented banks. The communication facilities (leased lines) are too costly to maintain.

Source: Cecil Dicdiquin, Micro Enterprise Bank (Emai:l cbd@mozcom.com / Tel. 082-225-0143 to 44)

4.45 Microfinance is an increasingly important factor in rural growth and gender equity. In fact, a National Strategy for Microfinance has been formulated by the National Credit Council – Credit Policy Improvement Program (NCC-CPIP) in the late 1990s. According to Llanto (2005), the national strategy provides for the following:

- "greater role of the private sector/microfinance institutions (MFIs) in the provision of financial services to small scale clients, e.g. micro-entrepreneurs, poor households;
- enabling policy environment to facilitate private sector participation;
- market-oriented financial and credit policies;
- wholesale loans to MFIs by government financial institutions (GFIs) to private financial institutions for on-lending by the latter; and
- prohibition to government (non-financial) line agencies to lend or implement credit guarantee programs."

4.46 Llanto also noted that the General Banking Law of 2000 "paved the way for the creation of a favorable environment for banks engaged in micro-finance." Meanwhile, the Agriculture and Fisheries Modernization Act (AFMA), which was enacted in 1997, and Executive Order 138, released in 1999, spelled out the policy framework for government credit/financing programs. In particular, the AFMA and the EO "terminated the subsidized directed credit programs (DCPs) in the non-agriculture sector and prohibited direct lending to target clients by government non-financial agencies."

4.47 **Action Required.** Review relevant policy issuances like the AFMA in relation to their responsiveness in enhancing the delivery of credit/financing services to the target clientele.

Global Market Access

4.48 While domestic constraints are paramount, there are also global trade issues that the government must address as they affect private investments. They are: (a) non-tariff barriers on exports of banana and pineapples to some countries; (b) discriminatory tariffs on exports of canned tuna to EU; and (c) Lack of bilateral fishing rights to support domestic tuna industry (Palau, PNG, FSM, and Kiribati – all Pacific countries) (See Box in Annex C)

4.49 **Action Required**. The Department of Trade and Industry, Department of Agriculture and the Department of Foreign Affairs craft with the private sector a time-bound comprehensive strategies n the subject.

Corruption

4.50 The Global Competitiveness Report (GCR) discussed in Chapter 3 is an outspoken indictment of the magnitude of corruption in the country. The Philippines is in the bottom 5 among 104 countries. This is exemplified by irregular payments to Customs and BIR officials.

4.51 **Action Required**. Create a strong, independent, and well-funded anti-corruption agency.

Contracts & Law

4.52 The GCR cited favoritism in decisions by government officials, judicial independence, organized crime and property rights as the main culprits. The Philippines ranks badly in all, principally favoritism and organized crime, where the country ranks among the worst 15 countries!

4.53 **Action Required**. Subject government contracts to transparent process. Prosecute erring judges. Establish a special court for organized crime.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 The MTPDP targets some 2 million ha of new lands and 1.26 million ha of existing lands for agribusiness development. These are expected to generate 2.8 million and 0.47 million jobs, respectively, or a total of 545,000 annually, twice the record of 2001-2004. These were later revised by DA to 1.85 million ha and 2.6 million jobs, respectively. Recently, the DA Secretary indicated that these targets are a work in progress and may be revised as detailed market studies are completed. Job creation will pose a challenge in the light of the global and domestic environment. Meanwhile, the DA estimates at least P100 billion for private sector investments from various stakeholders in the next six years, 2004-2010. The amount is only for farm level investments and downstream industries.

5.2 Private sector participation will be crucial in achieving development and job creation targets. At a macro level, private investments account for almost 80 percent of total gross investments for all three sectors. For agriculture, the target of 2 million hectares will require at least Php 100 billion over six years according to the DA. This excludes investments in infrastructure (roads, irrigation, etc), livestock and poultry and as well as fisheries and aquaculture. All these assume that investment proposals pass the market and other competitiveness tests.

5.3 The MTPDP Agribusiness targets pose challenges from many angles:

(e) The need for in-depth market justification of the targets. It might also be useful to conduct crop choice criteria based on farm profitability measures such as returns to labor;

(f) The justification on how supply will be generated: from increased areas or yield or both;

(g) Marketing, promotion and supply chain organization – critical elements- are not well articulated.

(h) The employment targets appear a tall order compared to the past record; and

(i) The role of the private sector is central.

5.4 Based on the foregoing, the following are the recommendations:

(f) Articulate marketing and supply chain management to address the supply increases;

(g) Elaborate more on the role of the private sector investments, including contract growing; and

(h) Address the need for a sound investment climate.

5.5 However, for the planned investments to come into fruition, the investment climate must be improved. First, the widespread perception of corruption must be addressed in earnest. Second, the investment environment must respect contracts and rule of law.

ACTION PLAN

5.6 As private investments account for almost four-fifths of total investments, economic growth in general, and rural growth in particular will greatly depend on the private sector. A private sector that has positive future expectations will part with their funds but they must be helped in ensuring a sound investment climate. The action plans indicate how the barriers to private investments can be addressed.

5.7 The action plan matrix covers strategic thrusts, actions, outputs, time frame and impact. Implementation of these actions is expected to significantly improve the investment climate in the rural sector. There are nine strategic thrusts:

(i) Improve public land access;
(j) Make CARP investment-friendly;
(k) Create a sound investment environment for forestry;
(l) Improve local governance to spur investments;
(m) Improve access to long-term financing;
(n) Expand fishing access in the Pacific;
(o) Expand international market access for agricultural/fishery products; and
(p) Push for Mindanao peace.

In addition: there must be a concerted effort at the national and local level to curb corruption, as well as promote the rule of law and respect of contracts. These issues are discussed in the governance report.

5.8 **Improve public land access.** The Philippines is no longer a land rich country. The lowlands and the uplands are settled. However, large areas are underutilized, under subsistence farming, or idle. They are in dire need of private investment. As a result, large tracts of lands are not productive; they are not creating jobs. Among the potential investments are tree crops but they need investors with large pockets, a scarce resource in this country. There are several impediments: two are constitutional and one legal.

5.9 The Philippine Constitution contains two provisions, although well-meaning, which have stymied private investments and job creation in the countryside. The first is the foreign ownership limitation on the exploitation of natural resources, particularly in forest plantations. While reserving public lands for Filipinos appears noble, Filipino investors failed to pour resources in long-gestating projects because of lack of capital, and little access to long-term financing. Another provision applies to all investors: the limits to leases of public lands to only 25 years, renewable for another 25 years. As already cited, this is inadequate for two cycles of rubber, three cycles of oil palm, and perhaps just enough for one cycle of hardwood trees, By contrast, in neighboring Asian countries foreigners can buy lands or lease land up to 99 years.

5.10 The private sector must advocate for constitutional change. There are serious impediments in the Constitution which hurt the national economy and the goals of job creation and poverty reduction. There are no viable alternatives in sight.

5.11 **Make CARP Investment Friendly.** The comprehensive agrarian reform program (CARP), despite its critics, has made significant advances in assets reform. Millions of landless tenants and farm workers have been given lands. However, the implementation delays and stringent CARP provisions have distorted land markets, reduced the collateral values of lands and, in turn, stymied investments and job creation. Among the provisions include: CARPed lands can only be transferred to qualified beneficiary ten years after full payment. If there are buyers or mortgages, they are still subject to the land ownership ceilings of five hectares (seven hectares for rice and corn lands distributed under the Marcos land reform in the 1970s). As a result, banks can not warehouse lands beyond five or seven hectares. Given the jobs targets of the MTPDP, the need to free land markets is imperative.

5.12 **Push for Sound Investment Climate in Forestry.** In principle, the DENR is the largest land agency in the country. It controls over 15 million ha of public lands, including production forests. This mandate can be made to spur investments or it can impede them. The many changes in forestry policy over the last two decades have led to a negative investment climate in forestry. DENR must focus on development role and downplay its regulatory role. One example is the limit on planting non-timber species on integrated forest management agreements (IFMA) areas even if these are market-driven and ecologically suitable. Today, DENR allows only up to 20% plantings of tree crops in IFMA lands. This policy has to change to spur long term investment.

5.13 **Improve Local Governance**. Many local governments have good potential for agribusiness investments. However, governance leaves much to be desired. Mayors have resorted to rent-seeking activities rather than act as development champions. Scarcity of resources, in spite of IRA, in 3rd to 6th class municipalities is widespread. As a result, good LGUs in agribusiness potential are unable to build access infrastructure (farm to market roads) and production infrastructure (e.g. water reservoirs in farm areas). This is a chicken and egg situation. If development has to happen and jobs created, external resources must be tapped. However, these poor LGUs are not bankable, and if they are, resource flows could be limited. It is vital that good LGUs must be rewarded in terms of grants for sound infrastructure and other projects. This is a

signal that the ODA community appreciates good governance by voting with their resources.

5.14 **Improve Access to Long Term Financing.** Access to financing tree crops such as rubber, oil palm and fruit trees are scarce in the country. Large plantations in the past were funded by foreign equity and bank loans. After CARP, land holdings have become small. Large estates have been distributed to farmworkers, and lessor-lessee arrangement took its course. Smallholders need financing for long term crops with sound markets and technologies. Today, only Land Bank has the resources to expand long-term lending. However, it must improve its project appraisal capability. Land Bank should also look into the possibility of using official development assistance (ODA) funds as a source of long-term finance for long-gestating crops.

5.15 **Expand International Market Access for Agriculture/fishery Commodities.** Investors look at the global and domestic markets in its project studies. Given its low per capita income, the Philippine market has a relatively narrow base of high income consumers for quality products. There is no such constraint in the global arena as long as the product is competitive in terms of cost, quality and reliability.

5.16 Canned tuna exports from ASEAN countries like the Philippines face tariff and non-tariff barriers in certain regions. Canned tuna faces a 24% duty in EU compared to *zero* duty for ACP countries. After the Doha round, the EU granted a small low tariff quota of 25,000 tons in 2002; it expires in mid-2005 and will be extended for a year at the same level. The ASEAN, with the Philippines as lead, desires bigger volume at the low tariff quota.

5.17 On the other hand, the export of Philippine banana to Australia faces rough times because of intense lobbying by the latter's high-cost banana industry. Australia has used import pest risk analysis as a weapon for protection. The Philippines has brought the matter to WTO on October 17, 2001.

5.18 Push for Mindanao Peace. Mindanao occupies about 34% of the land area and almost 40% of the agricultural lands. It is also the main agribusiness center and a food basket of the country. Much of the country's competitive exports – banana, pineapple, rubber, seaweeds

and tuna – come from the region. Mindanao is a strategic piece of real estate. Its potential is immense in agribusiness, aquaculture and food processing. Today, its agri-food exports total about US$1,200 million. (Taiwan at its peak exported over US$5 billion in an area 40% the size of Mindanao). Peace dividends will make Mindanao an even better investment destination. Moreover, much of ARMM lands are underdeveloped and the region hosts among the most fertile lands of the nation.

5.19 **Curb Corruption.** The ADB Report (2004) indicated that a system of lifestyle checks alone would not be adequate to combat corruption. It proposes:

(d) Simpler and more transparent regulations;
(e) Stricter implementation of the penalty system for non-compliant taxpayers and tax collectors accepting bribes; and
(f) The political will and resolve to implement the required policies and civil service reforms.

Table 5.1. ACTION PLAN MATRIX

Action Plan Matrix					
Key Lever - or Agenda	Responsible Agency/Agencies	Initial Actions	Output Indicator	Time Frame	Impact
Strategic Thrust 1: Improve Public Land Access					
Amend Constitution	The President convenes Congress as Constituent Assembly, or calls for election of delegates for Constitutional in 2007 **Private Sector**: Philippine Constitution Association (Philconsa) (Lead) Business Consortium: -Philippine Chamber of Commerce and Industry (PCCI) -Management Association of the Philippines (MAP) -Financial Executives of the	(1) establish action group (2) identify interest groups Legislature Professional Associations (3) prepare advocacy papers – including anti-advocacy analysis	(1) Passage of amendment to Section Chapter XII (a) Allow majority foreign ownership (b) Extend leases on public lands to 99 years from 50 years (25 +25 years) (2) implementation of amendment	Medium to Long Term	High

	Philippines (FINEX) -Mindanao Business Council (MBC)				
Strategic Thrust 2: Make CARP Investment Friendly					
Amend agrarian reform law	Legislature Private Sector Lead: Philippine Chamber of Commerce and Industry	(1) establish action group (2) identify interest groups Investors Landowners Beneficiaries (3) prepare advocacy papers – including anti-advocacy analysis	(1) Passage of amendment (a) no land ceiling for lands already covered by CARP (b) no ownership limits for Banks and natural juridical persons for lands already CARPed (c) no limits on transferability when land is fully paid (2) Implementation of amendment	Medium to Long Term	Medium to High
Strategic Thrust 3: Push for a Sound Investment Climate in Forestry					
Amend DENR regulations	DENR Lead: Philippine Wood Producers Association (PWPA)	(1)Draft policy framework (2) Draft AO that will allow larger areas for plantings of non-timber species in IFMA and similar instruments	(1) Issuance of DENR Administrative Order allowing plantings in IFMA of non-timber species up to 90% subject to ecological criteria., and allowing non-timber species in pasture lands if suitable (2) Implementation of the AO	Short -Med	Medium to High
Strategic Thrust 4: Improve Local Governance to Spur Investments					
Reward development-oriented LGUs	World Bank ADB	(1) Draft framework paper (2) Elicit support from ODA community	(1)Identify top 100 progressive LGUs identified (3rd to 6th class municipalities) (2) Establish screening criteria (3) Creation of $10 million grant fund for LGU infrastructure projects	Short to medium term	Medium
Strategic Thrust 5: Improve Access to Long-term Financing					
Improve Land Bank's capability to evaluate long-term projects and	Land Bank	(1)Draft advocacy paper (2) Explore possible use of ODA funds as funding source	(1) Creation of a task force at headquarters to assist field units and conduit banks in project evaluation	Short to medium	Medium

explore other sources of funding		(3) Land Bank Board meets with experts			
Strategic Thrust 6: Expand fishing access in the Pacific					
Generate bilateral agreements	Department of Foreign Affairs Department of Trade & Industry Private Sector Lead: -National Tuna Council -Socksargen Federation of Fshing Assn	Draft Strategic Paper (1) Engage Pacific countries: Palau, Federated States of Micronesia, Vanuatu, etc	(1) Number of Fishing agreements signed	Short to medium	Medium
Strategic Thrust 7a: Expand international market access for agricultural/fishery commodities					
Increase low tariff quota for canned tuna in the EU	Department of Trade and Industry Private sector lead: Tuna Canners Association of the Philippines (TCAP)	(1) Pursue negotiation for increased quota soon (EU will automatically extend quota for one year at same volume unless a revision is adopted not later than March 31, 2005)	(1) Agreement to expand low tariff quota for ASEAN canned tuna from 2005 onwards form a base of 25,000 tons.	Short	Medium
Strategic Thrust 7b: Expand international market access for agricultural/fishery commodities					
Lobby for entry of Philippine banana to Australia	Department of Trade and Industry Department of Agriculture	(1) Follow up WTO complaints file against Australia for non-tariff barriers.	(1) WTO considers Philippine position (2) WTO issues judgment.	Medium	Medium

	Private Lead Philippine Banana Growers and Exporters Association (PBGEA)				
Strategic Thrust 8: Push for the peace in Mindanao					
Push peace agreement with Government and MILF	Government Presidential Adviser for Peace Process	(1) Sustain peace negotiations (2) Sustain engagement of the International Monitoring Team	(1) Peace pact forged (2) Joint need assessment of conflict affected areas (CAAs) completed. (3) Development projects started in CAAs.	Short to medium	Medium
Strategic Thrust 9: Curb corruption					
Institute changes for policy transparency and penalties for wrong doers	Executive Legislature Judiciary Office of the President (Lead)	1)Simplify and make transparent national and local regulations; 2) Stricter implementation of penalty for offenders; 3) Political will to implement policies and civil service reforms	1) Number of offenders penalized, and dismissed from government service 2)Amount of illegal assets seized 3) Improved ratings in the Global Competitiveness Report	Short to medium	High

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Annexes

Annex A

CAPITAL STOCK IN PHILIPPINE AGRICULTURE
(BALL PARK ESTIMATES)

There are no reliable estimates of capital stock and investments in agriculture, and more so for private investments. The only available, but limited, data comes from the National Income Accounts of the National Statistical Coordination Board on breeding stock and orchard development. The former measures additions to livestock and poultry breeder stock while the latter measures reforestation. It does not include the plantings of tree crops (i.e. rubber, fruit trees etc). Durable equipment such as tractors and construction such as buildings are not also disaggregated by sector. Table 1.4 is a modest attempt to estimate the capital stock of selected commodities. It is not an easy process and a more precise estimate will not be available soon due to paucity of data.

The methodology involves the following:

(a) Obtain the harvested areas for crops and ponds, and of population for livestock and poultry from the Bureau of Agriculture Statistics and other sources;
(b) Derive estimates of the current development (investment) cost per unit of crops, livestock, poultry and ponds from World Bank Report Tree Crops for Rural Development and professional guesstimates. The relevant World Bank Report costs were adjusted to 2004 prices from 1998 prices;
(c) The product of the (a) and (b) will be the gross value of capital stock (accumulated investments) of the products concerned;
(d) Adjust the gross value of capital stock following an assessment of its current state. The adjustment process will heavily rely on professional guesstimate; and
(e) Related discussions.

A thorough "analytics" could be a subject for future research.

The ball park estimate of capital stock in agriculture, excluding land, buildings and farm machineries, would be at least Php393 billion, comprising: crops, Php 181 billion; public irrigation, Php130 billion: livestock and poultry, Php34 billion, and fisheries and aquaculture, Php48 billion.

Crops. The largest agricultural capital stock (or accumulated investments) can be found in the 3.2 million ha of coconut lands valued at about Php128 billion at current cost of development of about P40,000 per ha, excluding land and depreciation[2] Considering that about one third of the 324 million trees are senile, the adjusted estimate of capital stock is about Php85 billion for coconut trees alone. These exclude the development costs of intercropping (e.g. bananas, coffee, cacao, corn, pineapple, etc) of about one million ha which could be valued at say, P40,000 per ha or a total of Php40 billion, excluding land and depreciation. It is safe to assume a net capital

[2] Depreciation is meant economic depreciation and not accounting depreciation. For example, coconut trees have economic life of about 60 years at good maintenance. Beyond 40-60 years, the yield and harvest cost will reach uneconomic levels. Senile trees, whether coconut, rubber and oil palm, are normally replanted.

stock of about P27 billion. Altogether, the total investment is about Php113 billion for both coconuts and intercrops. This is of similar magnitude to the total irrigation investments in the country.

The second largest investments are in Cavendish banana for export estimated at about Php32 billion, taken from the total planted area of at least 40,000 ha in Mindanao at a development cost of P800,000 per ha. These exclude land costs and no depreciation of assets. Cavendish bananas are "normally" replaced every 15 years or longer.

Investments in other tree crops and other fruits (rubber, oil palm, pineapple, mango) total about Php69 billion. Rubber and oil palm are *depleting* tree assets due to tree senility. Rubber has an economic life of 30-35 years while oil palm has 25-30 years. It is reported that about one-third of the rubber trees need replanting. By contrast, mango and durian trees are *appreciating* assets (harvests increase as trees grow with bigger fruit areas (canopies)). On the other hand, commercial pineapples (mainly for canning) are replanted every 36 months after two harvests.

Table 1. Capital Stock of Selected Crops
Ballpark estimates, Excluding Land Costs

Product/ Type of Investments	Area or unit As of end 2003	Est. Development Cost of Investment Php/ha	Total Capital Php Billion
Coconut trees total	**3,200,000**	**P40,000**	**128**
Less: 1/3 senile trees	(1,100,000)	0	(43)
Net:	**2,100,000**	**-**	**85**
Plus: intercrops	1,000,000	P40,000	40
Less: 1/3 senile or depreciation	330,000		(13)
Net:	**1,670,000**		**27**
Total coconut, adjusted	**-**	**-**	**113**
Banana Cavendish, not depreciated	>40,000	P800,000	32
Banana, all other varieties	370,000	35,000	13
Mango	>155,000	50,000	8
Pineapple	40,000	100,000	4
Rubber	80,000	70,000	5.6
Less: senile trees	(30,000)		(2.1)
Net: Rubber	50,000		3.5
Oil Palm	25,000	70,000	1.8
Less: senile trees	(8,000)		(0.6)
Net Oil Palm	17,000		1.2
Abaca	122,000	40,000	5
Less: unproductive trees	(50,000e)		(2)
Net	72,000		3
Calamansi	20,000	100,000	2
Durian	11,500	150,000	<2
Total tree crops above			**69**
TOTAL			**181**
Memo item:			
Public investments in irrigation (mainly for rice)	1, 300,000e ha (a)	P100,000 to 150,000/ha	130 – 195

Source of Basic Data: BAS; Author's Estimate

Livestock and Poultry. The capital assets of commercial hogs at Php25 billion calculated from commercial herd of about 250,000 sows (about 2.5 million head population) with a development cost estimate of P30 million per 300-sow level. With respect to commercial poultry broiler, the development cost is estimated at 80 percent of total population multiplied at P120 per bird (traditional technology) which is conservative as *cool cell* technology now costs P250 per bird. Investments in poultry breeding would be higher per unit at about P500 per bird for traditional technology and up to P1,400 per bird for cool cell technology (the latter is more popular today). Assuming a stock of 1 million birds, the cost before land and depreciation will be at least Php0.5 billion.

Table 2. Capital Stock of Livestock and Poultry

Ballpark estimates, excluding Land Costs

Product/ Type of Investments	Unit As of end 2003	Est. Development Cost of Investment Php/ unit	Total Capital Php Billion
Hogs	250,000 commercial sows (a)	P100,000 per sow level	25
	7.5 million heads in backyard	P600/head in infra	4.5
Poultry –Broiler	100 million commercial ------birds stock (b)	P120 per bird	12
	40 million backyard	P30 per bird	1
Poultry –Layer	10 million commercial layers (c)	P250/bird	2.5
Poultry breeder	1 million	P500/bird	0.5
Cattle, carabao, goats, ducks	No Estimate	-	-
Total Hogs and Poultry			45.5
Less: Depreciation	Say 25%		(11.4)
Total Net			**34**

Note.

(a) 25% of 10 million head population equals 2.5 million heads or about 250,000 sows

(b) 80% of total bird population, or 100 million birds

(c) Commercial layers only

Source of Basic Data: BAS; Author's Estimate

Aquaculture. Aquaculture comprises three sub sectors: commercial fishing, municipal fishing, and aquaculture. Partial estimates of total investments in boats, ponds, and structures reach Php38 billion. A large part of commercial fishing is tuna catching. The total investment in tuna *purseine* fishing alone is at least Php12.5 billion. Estimates for municipal fishing, where there are one million fisher folks, are not available. Aquaculture, a fast growing subsector, mainly comprises milkfish, tilapia and seaweeds. Partial estimates for aquaculture is at least Php25 billion.

Table 3. Capital Stock of Selected Fishery and Aquaculture Products
Ballpark estimates, excluding Land Costs

Product	Area or unit As of end 2003	Est. Development Cost Php/unit	Total Capital Php Billion
Commercial fishing			
Tuna	50 purseiner groups (one seiner plus 3 support vessel)	P250 million/seiner group (2nd hand vessels)	12.5
Sardine and others	No data	No data	-
Total Commercial			>12.5
Municipal fishing	200,000 boats?	P50,000/boat?	10.0
Aquaculture:			
1.Milkfish			
a. Ponds	280,000	100,000/ha	28
Less:	140,000	100,000/ha	(14)
Net			14
b. Pens*	5,000	10,000/ha	<0.1
c. Cage-fresh*	1,000	5,000,000/cage	5
d. Cage-marine*	50 ha (5,000 cages)	500,000/cage	2.5
Subtotal			21.5
2. Tilapia			
a. Ponds	26,000	100,000	2.6
Less	20%		(0.5)
Net			2.1
b. Pens	4,000	10,000	<0.1
c. Cage	na	-	-
Subtotal			2
3. Prawns	Mostly included in 1.a	-	-
4. Seaweeds	20,000 (4 rafts/ha?)	100,000e	2
Total Aquaculture above	equivalent		25.5
TOTAL			**48.0**

Source of Basic Data: BAS; Author's Estimate

The unfortunate part of Philippine agriculture is the sorry state of tree crops today. Coconut lands, which occupy about a third of the farmland, need replanting every 40 years (Some industry reports indicate 25% of the trees are senile – 60 years and over) and they have to be fertilized to attain desired yields. Unfortunately, there is little fertilization and replanting for various reasons that will not be discussed. Due to these factors, average farm productivity is very low at about 750 kg copra per ha. At best practice, these lands should get at least 2,000 kg per ha: and for good lands and good clones, at least 3,000 kg per ha. Industry estimates indicate that about 1 million ha need replanting. At the current cost of about Php40,000 per ha, this amounts to about Php40 billion! Replanting of senile rubber trees (about 30,000 ha at P70,000/ha, or Php 2.1 billion). Coffee would also need rejuvenation to enhance productivity and make it competitive.

Table 4. Development Costs and IRR of Selected Commodities At Php Per Hectare at 1998 prices

	Development Costs, Php/ha 1998 estimate	FIRR in % at long-run prices	EIRR in % at long-run prices	Development Cost, Php/ha 2004 estimate
Coconut hybrid	28,823	32	42	39,500
Coconut tall	31,654	18	27	43,370
SmallholderOil Palm	51,168	32	38	70,000
Smallholder Rubber	49,780	16	23	68,200
Mango	33,780	41	Na	46,300

Source: World Bank (1999). Philippines: Tree Crops for Rural Development. Issues and Strategy. Report No. 19281-PH

EXCERPTS FROM THE MTPDP 2004-2010
CHAPTER ON AGRIBUSINESS: GOALS, STRATEGIES AND ACTION PLANS

Poverty in the Philippines is essentially a rural phenomenon. Since agriculture plays such a major role in the generation of incomes and employment in the countryside, the development of the sector is, therefore, essential to any antipoverty program. However, agriculture has had very limited impact, so far, in reducing rural unemployment, underemployment and poverty. For a long time, agricultural production has grown less than the growth of the population. Agricultural productivity improvements have also not been sufficient to reduce food prices to regional levels.

The agribusiness approach to countryside development has three main goals: (a) to expand substantially the production base, (b) to raise production and distribution efficiency that are parallel with the regional norms, and (c) to promote equitable distribution of production and productivity gains. The expansion of the production base involves breaking out from subsistence agriculture by increasing and diversifying the marketable surplus of the farm. While raising efficiencies to regional norms means increasing the price and quality competitiveness of the country's agricultural products. However, raising agricultural and fishery production and competitiveness have not automatically and consistently led to increased farm incomes. Often, more production meant surpluses that depress farm gate prices. Meanwhile, lower farm gate prices also do not automatically lead to lower food retail prices. It appears that an inordinate share of the benefits from higher production goes to middlemen. Thus, production and productivity improvements will have to go hand-in-hand with governance and institutional reforms to ensure that, among others, production and efficiency gains will indeed result in commensurate farmer and consumer welfare gains.

In view of these, government will aim to (1) develop at least two million hectares of new agribusiness lands within the next six years in order to create at least two million jobs, or one job per hectare; and (2) make food plentiful at competitive prices where the cost of priority "wage goods" such as rice, sugar, vegetables, poultry, pork and fish, and other important non-wage goods like corn must be reduced.

The development of two million hectares of new agribusiness lands means that the country will not merely improve but also substantially expand existing agri-based production systems. This will entail expanding the effective production areas for agriculture and fisheries by (a) increasing production intensity as well as diversification in existing crop, livestock and fishery farms (e.g., intercropping, multiple-cropping, integrated farming), (b) cost-effectively cultivating idle and marginal lands such as by planting fruit trees in denuded upland areas, and (c) engaging in fishery production in idle off-shore and inland waters. This will also entail expanding the product mix grown within the agribusiness lands to include: (a) adopting new and/or reconfiguring existing agricultural and fishery production systems to be able to tap emerging markets with vast potentials, including the US $150 bn global Halal food market, (b) a large-scale program of non-traditional high-value crops in farms and fisheries, and c) value-adding through innovative packaging and agri-processing technologies, among others.

Making food plentiful at competitive prices involves raising, to at least region-level norms, the efficiency in which the country will produce and distribute its agribusiness products, especially the wage goods. This will entail three sets of measures: (a) production support to enhance farm and fishery productivity; (b) logistical support to raise distribution efficiency; and (c) governance and institutional support to provide a policy and regulatory environment conducive to efficient production and distribution of agribusiness commodities. These will also ensure that the reduction in production and distribution costs due to the productivity and logistics measures will indeed result in commensurately higher farm incomes and lower food prices. The first set of measures involves addressing the constraints to high yields and low production costs. The second set focuses on postproduction handling, marketing, and distribution problems that lead to high agricultural input and food retail costs; while the last set addresses policy and regulatory bottlenecks to efficient agricultural production and distribution as well as competitive food prices.

Goal 1: Develop at least 2 million hectares of new land for agribusiness in order to contribute 2 million out of the 10 million jobs targeted as a legacy by 2010.

A. Design and establish the framework and mechanisms, including public-private partnership

arrangements, by end 2005, that will facilitate the transformation of farmlands into

agribusiness enterprises

It should be noted that there are existing policies that touch on agribusiness development which can serve as starting points for this set of activities. These include Title 4: Rural Non-farm Employment of the Agriculture and Fisheries Modernization Act (AFMA) and Republic Act (RA) 7905: The Agrarian Reform Communities (ARC) Development Framework.

1. Identify and prioritize two million hectares of new farmlands for agribusiness (to be done individually and collectively by the DA, DAR and DENR)

Programs and Activities:

a. Complete the identification, validation and prioritization of new lands for agribusiness by June 2005 to cover the following:
    a.1. Underutilized farm lands which can be made more productive through increased cropping intensity, intercropping and diversification;
    a.2. Idle and marginal lands, including denuded upland areas; and
    a.3. Idle off-shore and inland bodies of water for aquaculture Medium-Term Philippine Development Plan 2004-2010

Table 1 shows the initial six-year targets for the development of agribusiness lands by the DA and the corresponding jobs to be generated.

b. Complete the identification, validation and prioritization of prime and semi-prime agrarian reform lands and adjacent areas for agribusiness development, in coordination with the DA, by 2005

Table 1. Six-Year Targets for Areas for Agribusiness Development and Productivity Improvement and Jobs

Commodity	New areas for agribusiness development (has.)	Number of jobs to be generated	Existing areas for productivity enhancement (has.)	Number of jobs to be generated
RICE	**-**	**-**	**875,130**	**80,860**
CORN	**280,250**	**280,250**	**-**	**-**
LIVESTOCK	**45,200**	**45,200**	**-**	**-**
FISHERIES	**17,210**	**743,540**	**-**	**-**
Bangus (culture)	*3,190*	*86,260*	-	-
Tilapia (culture)	*8,200*	*221,450*	-	-
Seaweeds	*5,820*	*201,360*	-	-
Others (mariculture, etc.)*	-	*234,470*	-	-
HIGH VALUE CROPS (FOOD)	**292,690**	**329,670**	**214,780**	**214,780**
Pineapple	*1,520*	*1,900*	-	-
Pili	*850*	*1,120*	-	-
Sugar	*20,410*	*20,410*	-	-
Coffee	*9,440*	*9,440*	*56,420*	*56,420*
Mango	*130,170*	*130,170*	-	-
Durian	*8,510*	*8,510*	*22,090*	*22,090*
Banana	*72,840*	*72,840*	-	-
Onion	-	-	*2,680*	*2,680*
Cassava	*15,590*	*15,590*	*48,420*	*48,420*
Citrus	*390*	*390*	*11,680*	*11,680*
Vegetables	*26,730*	*63,060*	*73,490*	*73,490*
Garlic	*6,240*	*6,240*	-	-
HIGH VALUE CROPS (NON-FOOD)	**1,412,050**	**1,412,050**	**170,340**	**170,340**
Abaca	*50,390*	*50,390*	*29,940*	*29,940*
Rubber	*11,660*	*11,660*	*83,900*	*83,900*
*Coconut***	*1,350,000*	*1,350,000*	-	-
Tobacco	-		*56,500*	*56,500*
GRAND TOTAL	**2,047,400**	**2,810,710**	**1,260,250**	**465,980**

**Equivalent in hectares cannot be determined due to varying sizes of sea cages*

***Areas which will be developed for intercropping with suitable cash crops and/or high value crops or used for livestock production.*

c. Complete surveys, classification and distribution of at least 760,080 hectares of public alienable and disposable lands by 2010 in order to open up additional areas for production and job generation

2. Mobilize, organize and build capacities of farmers and fishers for the establishment and management of production, processing and marketing cooperatives in the priority agribusiness lands

Programs and Activities:

Capacity building for farmers and fishers and their organization through social infrastructure (organization building and strengthening; provision of technical and vocational education) and enterprise development support to manage and sustain viable operations of organizations and businesses in identified agribusiness lands

3. Form and build capacities of national and location-specific strategic alliances among the national and local governments, business groups/industrial chambers, and farmer groups to broker and facilitate farm-firm linkages (e.g., joint economic enterprises and subcontracting arrangements such as, but not limited to, poultry, vegetables and export winners)

Programs and Activities:

a. Marketing assistance and facilitation services such as promoting vertical and horizontal integration to shorten the supply chain and increase the efficiency of agribusiness logistics, promoting market-driven or demand-led production systems to improve profitability of farming and processing operations

b. Sustainable agribusiness and rural enterprise development (Capacity building for cooperative management including forging contracts for joint economic ventures and subcontracting arrangements among farmers, landowners and business groups; and operationalization and strengthening of Farmers Centers under the KALAHI-CIDSS or Kapit-Bisig Laban sa Kahirapan Comprehensive and Integrated Delivery of Social Services Project)

c. Access facilitation and enhancement services (Conduct of regular fora and trade fairs for farmers, fishers and business groups; and establishment of marketing information systems)

B. Organize a large-scale community-based and environment-friendly program of crop and fishery production intensification and diversification, especially high-value and non-traditional commodities in existing crop, livestock and fish farms.

Programs and Activities:

a. Agricultural production intensification (inter and multicropping) and diversification programs (especially non-traditional high-value crops including fruits and vegetables)

b. Crop (especially for rice, corn and coconut), livestock and fishery integrated farming systems program, as well as agro-forestry

c. Aquaculture enterprise program (sea cage culture of various species such as sea bass, grouper, pompano, milk fish, cobia, freshwater *tilapia*, red snapper and sea bream) as well as sustain seaweed farming in non-traditional areas

C. Transform idle agricultural lands, offshore and inland bodies of water as well as marginal lands into productive agribusiness enterprises to fully utilize existing agriculture and fishery resources

Programs and Activities:

a. Crop and livestock integrated farming systems program
b. Aquaculture enterprise program (sea cage culture of various species such as sea bass, grouper, pompano, milk fish, cobia, freshwater *tilapia*, red snapper and sea bream) as well as sustain seaweed farming in non-traditional areas
c. Expand support service delivery in marginal lands for productive agribusiness and food security purposes
d. Reforestation through agroforestry (*Refer to Chapter 3: Environment and Natural Resources for details*)
e. Promotion of more diversified cropping systems for non-timber and non-forest products in suitable areas as means of livelihood for upland settlers
f. Development of community-based forest management (CBFM) areas as agribusiness enterprises

D. Promote off- and non-farm enterprises (including agri-processing) in the agribusiness

lands to increase and stabilize rural income

Programs and Activities:

a. Farm income diversification and market development program
b. Small and micro-enterprises development program to include facilitating access to credit support, among others
c. Sustainable agribusiness and rural enterprise development
d. Harnessing of the biodiversity potential for livelihood activities (e.g., ecotourism, pharmaceutical, essential oils)
e. Social infrastructure and local capability building services such as provision of training and education to enhance entrepreneurial capacities of individual farmers, fishers and their organizations and promotion of grassroots enterprise development
f. Operationalization and strengthening of KALAHI Farmers Centers for wider dissemination of technologies and promotion of rural entrepreneurship; and facilitation of access of farmers, households and organizations to affordable credit, market and other extension services

E. Make Mindanao as the country's main agro-fishery export zone

The full potential of Mindanao as an agribusiness hub has yet to be tapped. Its strategic location within the East Asian region makes it potentially a major transshipment point and center of trade in the region. With almost a third of its land devoted to agriculture, it accounts for over 40 percent of the Philippines' food requirements and contributes more than 30 percent to the national food trade. With rich agricultural resources supported by a generally fair tropical climate, Mindanao

hosts a wide variety of economic activities and investment opportunities. Some of these are focused in the agribusiness and fishery sectors. Following are some of the investment opportunities for these sectors.

For Agribusiness:

- ③ Fruit and vegetable production and processing
- ③ Feed milling
- ③ Animal production
- ③ Meat processing
- ③ Snack food manufacturing
- ③ Ornamental horticulture
- ③ Industrial tree plantation (oil palm, rubber)

For Fisheries:

- ③ Aquaculture
- ③ Fish processing/canning
- ③ Crab production
- ③ Seaweed farming and processing

Some major programs to be implemented in support of making Mindanao the main agro-fishery export zone are:

1. Developing Southern Mindanao as a Halal food production area. Recognizing the growing demand in the global market for Halal certified foods, Mindanao, with its export-oriented agri-based industries, island-wide infrastructure development and where around 70 percent of the more than four million Muslim Filipinos live, is the most logical place to put a Halal food industry. Interventions supporting this program include technical assistance, standards setting and market facilitation (i.e., establishment of Halal-accredited slaughterhouses and improvement of central and satellite laboratory facilities).
2. Cost-effectively linking Mindanao's agriculture and fishery production centers with its markets internally, with the rest of the country, and abroad through the provision of adequate transport and communication services and infrastructure facilities. These will be realized through strong partnership and linkage with the private sector groups, multinational companies and other government entities.

Programs and Activities for both components:

a. Establishment of and capability building for the Halal certification and accreditation process
b. Technical assistance for Halal food production
c. Construction/repair/rehabilitation of vital infrastructure for land and water-based production enterprises
d. Upland and coastal development program
e. Emergency and livelihood assistance program
f. Local capability building services for the provision of social and physical infrastructures to link agribusiness lands to markets
g. Access facilitation and enhancement services (Capacity building for cooperative management including forging contracts for joint economic ventures and

subcontracting arrangements among farmers, landowners and business groups; and operationalization and strengthening of KALAHI Farmers Centers)

Policy reforms for this goal are:

Tap all possible fund sources to support the provision of social and physical infrastructure for farmers and fishers to include the following:

a. the Marcos wealth which shall be used to finance agricultural land reform, including ancestral domain reform, and the development of agribusiness in the land reform communities;

b. the coconut levy fund which shall be used for social services for coconut farmers and their communities, and for the development of coconut-based agribusiness; and

c. the agrarian reform fund (ARF)

Goal 2: Make food plentiful at competitive prices where the cost of priority "wage goods" such as rice, sugar, vegetables, poultry, pork and fish and other important non-wage goods like corn must be reduced. This also means that government will continue to fight for self-sufficiency in rice production by increasing price and production efficiency and competitiveness.

A. Raise factor (land, labor and capital) productivity to approach the regional average within six years.

1. More strategic and catalytic provision of national government support services (to include credit and capability building support) in agriculture and agrarian reform areas through, among others, stricter application of the agrarian level of development assessment (ALDA) for agrarian reform areas as well as the NG-LGU-Private Sector Cooperation Guidelines as provided for in the Operations Manual for Project Preparation of the DA which is initially being adopted under the Diversified Farm Income and Market Development Project

Programs and Activities:

a. Identification, validation and prioritization of production areas, by June 2005, based on their production and income potentials

b. Formulation of commodity road maps, by September 2005, focused on "wage" goods

c. Promotion of the development of viable seed and planting material industries for crops and forestry, including mangrove propagules as well as hatchery industries for fisheries through NG research and development support, technology dissemination and advocacy, as well as access to credit

More important than these time-bound and area-specific interventions, the national government will ensure that the policy and regulatory environment will be sufficiently and consistently conducive for the stakeholders to rapidly improve agricultural production and productivity.

Policy reforms:

a. Allocate 17 billion pesos yearly in addition to the annual budget of the DA for agricultural and fishery modernization (RA 8435 as amended by RA 9281)

b. Sector agencies to adopt a standard and transparent prioritization criteria and process for infrastructure and other support services in agriculture and fisheries, primarily considering cost effectiveness, efficiency parameters, and, where appropriate, gender responsiveness

c. Complete the rationalization and consolidation of directed credit programs (DCPs) into the Agro-industry Modernization Credit and Financing Program (AMCFP) by December 2005

d. Adopt alternative and innovative financing schemes such as the Special Agriculture Financing Window and the Rural Household Financing Program that will enhance greater collaboration and investments of private financial institutions (PFIs) especially in the provision of credit for small farmers and fishers

e. Establish, by December 2005, public-private sector mechanisms for finance mobilization in support of the provisions under the Philippine Fisheries Code (RA 8550): (a) the PhP100M Municipal Fishery Grant Fund; (b) the PhP250M

Fishing Vessels Development Fund; (c) the PhP100M Special Fisheries Science and Approfishtech Fund; and (d) the PhP50M Aquaculture Investment Fund

f. Rationalize the rental fee of public lands for agricultural production (e.g., pasture and fishpond lease agreements)

g. Include in the legislative agenda the passage of the National Land Use Act, within 2005, to mitigate unrestrained land conversion and secure agricultural lands for the nation's food requirements, the Land Administration Reform Act and the amendment of the Public Land Act.

2. Concentrate investments in quick gestating irrigation development activities such as rehabilitation and improvement of existing systems and facilities; establishment of small but high-impact irrigation projects such as Small Water Impounding Projects (SWIP) and Shallow Tube Well (STW); as well as establishment of new multi-commodity facilities, where appropriate, that are cost-effective and sustainable with NG focusing on national irrigation systems (NIS) and LGUs on communal irrigation systems (CIS). To ensure the long-term viability of these systems, watershed areas will be protected, rehabilitated and maintained to convert irrigated lands into watershed-supported systems from the current rainfall-dependent systems (*Refer to Chapter 3: Environment and Natural Resources).*

Programs and Activities

a. Rehabilitation/repair of existing national irrigation systems

b. Construction of new multi-commodity irrigation facilities

c. Reactivation of groundwater irrigation systems

d. Water resources development program

e. Irrigation Management Transfer (IMT) and capacity building program for Irrigators' Associations (IAs) on proper operation and maintenance of facilities

f. Development and maintenance of communal irrigation systems by LGUs with technical assistance from national government

Policy Reform:

Pursue volumetric pricing for irrigation

Changing the fee structure to volumetric pricing at the head gate will provide a means for greater assurance for service delivery to the IAs as well as provide a powerful incentive to properly maintain the distribution system to improve equity of head- and tail- end distribution and to conserve water resource.

3. Intensify science and technology application in Philippine farms by transforming research, development and extension (RDE) institutions into market-sensitive and demand-driven change agents; NG to focus on capacity building of LGUs to deliver extension services using, among others, the PhilRice, PCARRD and other provincial extension models.

Programs and Activities:

a. Provision of capability-building programs by DA (i.e., Agricultural Training Institute) to LGUs to enable them to perform their mandate on extension

b. Review of the Internal Revenue Allotment (IRA) system to make it performance based and serve as an incentive system for the full and effective delivery of extension services by LGUs

c. Establishment of demonstration/model farms

d. Market-linked technology development generation and dissemination, including improvement of farm technologies/systems (e.g., genetic resources improvement program)

4. Transform relevant agencies as centers for agriculture, fishery and natural resources knowledge management systems by maximizing the use of up-to-date information technology for intra- and inter-agency as well as national and international information exchange that will provide timely and adequate information for rational decision-making

Programs and Activities:

a. Establishment and improvement of the database and information system for agriculture and fisheries

b. Transformation of database and information system to knowledge systems

c. Integration of the knowledge management system into the human resource development program of the bureaucracy

d. Development of a national common spatial database to support growth initiatives (e.g., foreshore and municipal coastal database)

5. Increase capital productivity and investments through the reduction and appropriate management of risks inherent in agriculture

Programs and Activities:

a. Coverage expansion of the agricultural credit guarantee and insurance systems

b. Resolution of agricultural, fishery and agrarian property rights conflicts and uncertainties

c. Early completion of the implementing rules and regulations on the delineation of municipal waters with off-shore islands

d. Emergency assistance and disaster-mitigation projects for calamity-stricken areas

e. Geohazard Assessment Program

Policy Reform:

a. Include in the legislative agenda the passage of the Farmland as Collateral Bill in conjunction with the proposed Progressive Land Tax, Graduated Capital Gains Tax and Land Conversion Tax, Idle Land Tax and the National Land Use Act to prevent agrarian land ownership reconsolidation

b. Include in the legislative agenda the passage of a bill that will extend up to 2015 the utilization of the Agricultural Competitiveness Enhancement Fund (ACEF) to provide loan assistance to agricultural and fishery enterprises

c. Include in the legislative agenda the passage of a bill amending the Agri-Agra law, to ensure that agri-agra funds are used for rural credit

B. Increase the effectiveness, adequacy and efficiency of the agricultural sector's transport and logistical support system for both farm inputs and produce to approach regional standards especially for agricultural and fishery food products

1. Link infrastructure support and postharvest facilities with the nautical highway to reduce postharvest handling thereby minimizing losses and facilitating the flow of goods

Programs and Activities:

a. Promote the construction/repair of vital postharvest facilities and equipment, including grains-highway bulk handling, ice plants (for livestock and fisheries) and cold storage by the private sector through credit facilitation

b. Development of regional and municipal fish port complexes in the validated priority production areas

Policy Reform:

Include in the legislative agenda the passage of a bill that will provide adequate, efficient and price-competitive shipping services (Philippine Export and Import Freight Shipping Bill)

2. Cost-effectively link the production areas to major markets through the construction of farm-to-market roads, the expansion of shipping services through the promotion of competition, and the promotion of the roll-on roll-off ferry logistics system for more efficient transport of agricultural goods from Mindanao to Luzon and the rest of the world

Programs and Activities:

a. Construction/rehabilitation of priority farm-to-market roads in validated priority production areas

b. Development and establishment of regional and municipal fish ports in validated priority fishery production areas

c. Access facilitation and enhancement services for the delivery of necessary physical infrastructure support such as farm-to-market roads, bridges, irrigation and postharvest facilities in areas identified for agribusiness development

3. Provide effective, commensurate, and where appropriate, gender-responsive market assistance and facilitation through the provision of timely and accurate business information and appropriate trading services (e.g., national agricultural and fisheries product standards system, quarantine and inspection system, data-basing, profiling, farm firm matching, trade fairs, exhibits, market research)

Programs and Activities:

a. Aggressive promotion of products in international markets

b. Market development and assistance to improve the local agricultural products' relative competitiveness and access to domestic markets vis-à-vis imports

c. Institutionalization of the Bureau of Agriculture and Fisheries Products Standards (BAFPS) and its product standards development program

d. Rationalization, modernization and harmonization of the disparate regulatory agencies into a national quarantine and inspection system with dual functions of border protection and trade/export facilitation

Policy Reform:

Further rationalize the grains sector trading with the passage of House Bill (HB) 418: "National Food Authority (NFA) Reorganization Act of 2002."

The ultimate purpose of the House Bill is to restructure the NFA to separate its regulatory and proprietary functions. NFA shall grant ministerially import permits for rice to all applicants, subject to the payment of all taxes and duties. The passage of this HB is envisioned to effect the implementation of NFA activities consistent with its mandate.

4. Ensure that the efficiency gains in production and logistics result in more affordable prices for consumers rather than larger margins for middlemen. Therefore, there is a need to intensify efforts to directly link producers to retailers and possibly to consumers as well. This will lessen distribution costs and attain optimum production volume of wage goods to a level that will generate competition at the retail level. Such a situation will put a downward pressure on consumer prices and force distribution and retailing margins to a fair level.

Programs and Activities:

a. Electronic marketing program

b. Market matching fairs

c. Forward contracting mechanisms

d. Strengthening LGU capability on marketing

e. Supply chain research and analysis as well as establishment and updating of database systems

f. Bantay Presyo (Consumers' Price Watch)

g. Systematic consultation with private sectors and commodity boards for data validation and updating of costs data, interventions, and monitoring and evaluation of intervention effects

C. **Implement critical governance reforms to establish a bureaucracy that will effectively be responsive to the demands of a productive and enterprising agricultural sector** *(Chapter 22: Bureaucratic Reforms)*

(Source: Medium-Term Philippine Development Plan, 2004-2010)

Annex B

POST-REFORM SITUATION OF THE RURAL FINANCIAL MARKETS, POLICY GAPS AND RECOMMENDATIONS[1]

1. This paper discusses recent rural finance reforms, the status of implementation of those reforms, some key issues and gaps in the rural financial markets, and provides recommendations for government action. At the onset, before indicating below some specific recommendations to address key issues in rural finance, it is important to state that a weak rural economy will necessarily discourage bank lending[3]. In crafting financing strategies, it is important to bear in mind that the problem of inadequate rural financing is nested within the larger problem of weak rural economies[4]. It follows that private banks would not lend to the rural sector if they find that rural projects and activities are unviable.

2. While addressing the key issues in rural financial markets, the government should not forget the larger challenge of providing strategic support for a viable rural economy in the terms of right economic policies, basic infrastructure and an environment conducive to private investments. Banks will continue to provide token financing to the rural economy unless it becomes profitable for them to do so.

I. Status of Compliance of Government (DA): Agricultural Modernization Credit Financing Program

3. The government and Congress enacted drastic reforms in the rural financial markets in the late nineties after recognizing the failure of subsidized, directed credit programs (DCPs) to provide small farmers and other small-scale borrowers access to formal credit[5]. The Agriculture and Fisheries Modernization Act (AFMA) mandated the government to terminate the subsidized DCPs and created the Agricultural Modernization Credit Financing Program (AMCFP) as a substitute for terminated subsidized credit programs. It asked the government to implement the AMCFP for the modernization of agriculture.

4. The Department of Agriculture (DA) tried to terminate all the subsidized agricultural credit programs and to consolidate the remaining loan funds into the Agricultural Modernization Credit Financing Program (AMCFP). The National Credit Council of the Department of Finance and the DA issued a policy asking government financial institutions (GFIs) to implement the AMCFP as a wholesale lending program to address the credit financing needs of the agriculture and rural sector. Private financial institutions shall take wholesale loans from the Land Bank (as major steward of the AMCFP) which shall be then on-lent to end-borrowers. Interest rates shall be market-determined.

5. **Status of compliance and gaps**. As of September 2004, around Pesos 720 million from 12 terminated DCPs had been deposited at the Bureau of the Treasury. The DA has yet to complete the Congressional mandate. The Land Bank and Quedancor also tried to provide

[3] For the benefit of politicians and government bureaucrats, there is a need to stress the obvious.
[4] The other chapters of this Study identify the measures needed to invigorate the Philippine rural economy.
[5] **Annex A** provides a brief explanation of the policy reform thrusts in the microfinance and rural finance markets and reports the status of the Agriculture Modernization Credit Financing Program (AMCFP) which the Congress of the Philippines legislated substitute for subsidized (directed) credit programs in the agriculture and rural sector.

more loans to the sector but serious gaps prevent greater synergy between the government financial institutions and private financial institutions in addressing the AFMA mandate.

6. The DA and Land Bank failed to develop the details of the AMCFP: what strategies and specific instruments to be used to finance the modernization of agriculture;[6] how to implement the envisaged partnership between government financial institutions (GFIs) and private financial institutions in addressing the outstanding gaps in the agriculture and rural sector, e.g., loss of the collateral value of agriculture lands, lack of long-term investment credit in the sector, etc; how to address various constraints to formal lending in the sector.

7. Any effort to map out details of the AMCFP should take into account the DA's agriculture development strategy and programs to modernize agriculture and the expected financing requirements of the sector that will emanate from that strategy.

Recommendations:

(a) The DA should direct the DA bureaus and units to terminate the remaining subsidized credit programs and move the funds to government financial institutions (basically, the Land Bank of the Philippines) for on-lending to the agriculture and rural sector.

(b) The DA (Office of the Secretary) should review its agriculture development strategy and its implementation of the Agriculture and Fisheries Modernization Act (AFMA).

(c) NEDA and DBM should commission an independent review of how DA has allocated its budgetary appropriations to meet the AFMA goals and to determine the impact of the budgetary allocation on rural growth and development. The results of the review will be useful inputs to DA's review of its agricultural development strategy and the implementation of AFMA.

(d) Land Bank of the Philippines and the DA should work with the private sector to map out the details of the implementation of AMCFP taking into consideration the DA's agriculture development strategy and programs to modernize agriculture.

II. Key Issues and Specific Recommendations

8. **Private banks' loans to agriculture**. The expectation was that the AMCFP will be a major mechanism for credit financing of the requirements of the agriculture and rural sector. How have private banks responded to the reforms, if at all?

9. The service sector had an 86% average share of total loans granted by all banks in the period 1996-2002. The industry sector had an average share of 11% of all loans for the same period while loans to agriculture, fishery and forestry sector (AFF)[7] averaged at 3 to 4% (Table 1).

[6] The requirements of a modernizing agriculture sector are discussed in the Chapter by Ching de la Pena.

[7] Loans to AFF, as determined by the 1992 Inter-Agency Task Force on Agricultural Credit, cover loans classified by the PSIC system for production purposes under the following economic activities: agriculture, fisheries and forestry (excluding hunting). In addition, included also as determined by the Task Force, are selected agri -related loans classified under mining and quarrying, manufacturing, construction, and wholesale and retail trade.

Table 1. LOANS GRANTED BY ALL BANKS ACCORDING TO SECTOR
(In Billion Pesos)

	1996	1997	1998	1999	2000	2001*	2002
AFF Sector (a)	n.a.	n.a.	299.04	401.88	335.31	414.28	487.73
Industry Sector (b)	1,385.04	1,063.26	1,034.73	984.51	874.13	n.a.	n.a.
Service Sector (b)	8,610.66	8,661.74	7,452.40	8,677.83	8,275.20	n.a.	n.a.
Total Loans Granted (a)	10,636.25	10,141.48	8,650.83	9,909.13	9,478.18	7,123.32	6,874.93

Source: BSP
(a) Data came from revised reports from ACPC based on BSP data; figures will not add up
(b) Data on PDB, SSLA & SB only until Oct of 2000; Data on SGB only until May 1994
(*) Except AFF sector, data are only from commercial banks
NOTE: Loan figures, except AFF, were based on reported loans granted to sub-sectors according to reports by each type of bank
Source: Bangko Sentral ng Pilipinas and Agricultural Credit Policy Council

10. The share of loans to agriculture, fishery and forestry (AFF) sector to total loans granted has had only modest improvement. It was 3% in 1998, increased to but remained at 4% in 1999 and 2000 and showed an improvement in 2001 and 2002 at 6% and 7%, respectively. It seems that there was no significant increase in the allocation of private bank loans to the agriculture sector even after the rural finance policy reforms relative to other sectors of the economy.

11. There is a wide gap between the loans granted to the non-agriculture sector and those given to AFF. Financing support to AFF coming from formal financial institutions has been relatively small. The real figure can be smaller if the loans mandated by Presidential Decree 917 (Agri-Agra Law) to be directed to agriculture and agrarian reform are discounted from the loan volumes reported by private banks. The Agri –Agra Law allows private banks to buy government securities and other related debt instruments of the government in substitution of actual loans to the agriculture and agrarian reform areas.

12. Commercial banks held a significant share of total agricultural production loans that were granted by all banks (Table 2)[8]. In 2002, private commercial banks' share of total agriculture-production loans granted was 60%. They were the dominant provider of agriculture-production loans. They provided the loans without having to depend on the AMCFP or any government credit program.

13. On the other hand, the share of government banks was only 6% for that same year. Rural banks' share of agriculture-production loans in 2002 was 18%, its highest by far, while thrift bank had 17%. On a 5-year average (1995-2002), rural banks' share was 14% while thrift banks had a 15% share of agriculture-production loans[9].

[8] See Annex C.
[9] Rural banks have traditionally looked up to the government and the Land Bank of the Philippines as sources of on-lending funds for smallholder agriculture.

14. **Lack of financing for high value, long-gestating crops.** Food commodities receive approximately half of the total agricultural production loans while export and commercial crops receive about 20% of those loans. Among the food commodities, livestock and poultry gets the biggest share with 30-40% while cereals and the fruit, vegetable and root crops food group receive about 25% each.

15. It is noted that large commercial farms (agri-business, plantation farms producing exportable crops, e.g., pineapple, bananas) have access to loans from commercial banks. Large agri-business firms that operate those commercial farms have entered into contract-growing schemes with farmers to grow those crops. They have also utilized their internal funds to finance commercial operations. On the other hand, those farms that have shifted to livestock and poultry were also able to borrow from private banks. The large demand for chicken and pork in rapidly urbanizing areas has made livestock and poultry business a profitable venture for commercial growers. Private commercial and thrift banks have lent to these borrowers without having to depend on government funds, e.g., AMCFP.

16. Smallholder agriculture devoted to rice and corn production has not been able to get substantial funding from private commercial and thrift banks. The main sources of formal loans are the Land Bank of the Philippines and rural banks[10]. The credit programs of government financial institutions currently supporting agriculture are mainly for primary production of rice and corn. The focus on rice and corn production implies that major government support (infrastructure, research and development, extension, technology and financing) has remained concentrated on those particular crops. However, in reality, a very large number of farmer borrowers (60%) continue to depend on informal lenders for their production financing as reported in a 2002 survey of the Agricultural Credit Policy Council[11].

17. It appears that Philippine agriculture is not production-credit constrained but investment-credit constrained[12]. Smallholder agriculture get financing from a variety of loan sources. Exportable and commercial crops receive financing from private banks but a serious gap remains with other types of high value crops such as long-gestating crops, e.g. rubber, oil palm. Private banks have not provided financing for long-gestating crops. They are more comfortable financing short-term, high value crops, livestock and poultry.

18. In general, there is a dearth of long-term financing in the agriculture and rural sector, e.g., financing for long-term crops such as palm oil, rubber and others. Dy (Chapter __ of this Study) distinguishes between annual and perennial crops. Annual crops such as rice, corn and most vegetables are planted and harvested in one year or less; perennial crops such as tree crops are planted and after the gestation period are harvested every year during its economic life. While access to financing is certainly tough for all agriculture projects, it is tougher for perennial or long

[10] The Land Bank of the Philippines has traditionally provided agricultural production loans to small rice and corn farmers especially agrarian reform beneficiaries.

[11] The informal lenders are composed of the traditional moneylenders, rice traders and input suppliers. The informal lenders are able to provide loans that are timely, without the traditional collateral required by banks and with no requirement for tedious loan documentation.

[12] This was pointed out by Al Nyberg.

gestating crops. According to a Land Bank source, the total lending to agriculture projects is about Php70 billion, of which barely P200 million is for long-gestating crops[13].

19. One reason for the lack of long-term financing is the banks' negative response to the fragmentation of agricultural lands brought about by agrarian reform. Lands have been traditional collateral to bank loans and from the bank's perspective, agrarian reform has a negative impact on the collateral value of those lands. Dy (Chapter ___ of this Study) reports that certain CARP provisions such as: (a) ownership ceiling; (b) transferability of the lands and the holding period; (c) uncertainties created by the slow implementation of agrarian reform and the (d) negative effects on land consolidation and the collateral value of agricultural lands have effectively acted as barriers to private investments in agriculture and the rural areas[14]. The issue of agrarian reform as a barrier to private investments and how it can be dealt with is discussed in another chapter of this report and will not be treated here[15].

20. The negative impact of agrarian reform on the collateral value of agricultural lands does not seem insurmountable when viewed from the perspective of successful commercial farms in Mindanao that grow commercial and export crops, e.g., banana. As earlier noted in this paper, they were able to consolidate extensive lands for cultivation by entering into contract growing schemes with agrarian reform beneficiaries to produce the export crop. The main issue therefore is not so much the 'fragmentation' of agricultural lands as the availability of long-term financing for long-gestating crops[16] and a clear strategy on how private banks can access such long-term finance.

21. While the Land Bank has a policy to finance such long-gestating crops it has not been able to implement it on a large scale. The unavailability of long-term funds in the capital markets to finance this type of crop is a major reason for the lack of financing[17]. Meanwhile that the underdeveloped capital markets are unable to produce long-term financing for long-gestating crops, it will be important for the government to explore the use of ODA for such purpose.

Recommendations:

(a) The Land Bank of the Philippines and the Development Bank of the Philippines should review their respective credit policies and procedures for long-gestating crops, their past experience in financing long-gestating crops, and identify bottlenecks for implementation.

[13] See Annex B for a brief report on Land Bank's recent performance.
[14] The erosion of the collateral value of agricultural lands due to agrarian reform was first analyzed in Estanislao and Llanto (1995).
[15] See the chapter of Rolando Dy on private investments and growth, particularly the discussion of barriers to private investments.
[16] There are proposed bills in Congress seeking to allow banks to warehouse foreclosed agrarian reform lands and dispose of these in the open market. The option of legislation is not discussed in this paper due to unforeseen and unanticipated twists in legislation initiatives that may thwart the original intent of the proposed legislation. In short, the recommendations made in this paper are those that are under the control of the executive branch of government.
[17] The government has been working with the private sector in capital markets development.

(b) The Land Bank of the Philippines and the World Bank explore ways to use ODA as a source of long-term finance for long-gestating crops.

(c) The World Bank should provide advice to the DA and Land Bank on how ODA (from the World Bank) can be used to address this gap in the rural financial markets and help these government institutions design a financing program that will involve the participation of private banks in long-term crop financing.

22. **Missing middle in rural financial markets.**[18] The rural finance reforms have also given impetus to the development of microfinance markets[19]. 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.

23. 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.

24. 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 Table 3 for an illustration of this situation.

[18] The sources are Llanto (2004a, 2004b).

Table 3. Rural Activities and Corresponding Source of Financing

Farm-based activities ⇗ Large farms Small farms	Commercial banks LBP, rural banks, traders, input suppliers, informal lenders
Off-farm activities ⇗ Small and medium enterprises Micro-enterprises	LBP, DBP, private development banks, PCFC, MFIs, informal lenders
Primary production by small farmers Plantation agriculture, e.g. pineapple, bananas	LBP, rural banks, traders, input suppliers, informal lenders 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)

25. 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.

Recommendations:

(a) The World Bank should provide technical advice on how to address the financing gap and possibly, develop a financing program where private banks can learn new credit delivery technologies and innovative financial instruments to meet the gap.

(b) Other donors can work in tandem with the World Bank in providing the needed technical assistance.

26. Credit cooperatives as potential source of rural financing[20]. 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

[20] Llanto (2004b) "Microfinance and Rural Finance Options in the Philippines", draft submitted to Liza Valenzuela, World Bank.

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.

27. 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. The interview indicated a common perception that the agriculture sector in the country is extremely disadvantaged relative to other sectors. The government has not provided adequate support and attention to smallholder agriculture.

28. 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.

Recommendation:

(a) The Cooperative Development Authority should develop its capacity for effective regulation and supervision of credit cooperatives.

29. **Diversity of rural activities and loan diversification**. Credit financing has tended to focus on particular crops (rice, corn, vegetables, etc.). However, rural households have both farm and non-farm activities. Data show the decreasing share of incomes from on-farm production to total rural incomes. On the other hand, non-farm activities, e.g., micro-enterprises now contribute an increasing share to total rural incomes. Thus, rural financing should be expanded to serve both on-farm production activities and non-farm, rural enterprises/micro-enterprises.

30. Both government and private banks have yet to view rural households in their totality as "business enterprises" that are engaged in a variety of income-generating activities. With support from the ACPC, the Land Bank of the Philippines is currently experimenting with the provision of loans to rural households that are engaged in both farm and non-farm activities. While it is a radical departure from the traditional approach to credit financing in the agriculture sector, it has the potential of being able to provide appropriate financing to rural economic agents. This approach also can provide the loan diversification that will help financial institutions manage credit risks and other risk in the countryside.

Recommendation:

(a) The Land Bank of the Philippines and the Agricultural Credit Policy Council (ACPC) should review the pilot project on rural household-based financing to get lessons for future financing of rural households' farm and off-farm economic activities and should explore ways to involve private banks in this regard.

(b) The Department of Agriculture as a key member of the Board of Directors of the Land Bank of the Philippines[21] should exercise oversight responsibilities over the review that would yield specific policies and measures to ensure implementation of a comprehensive rural household financing program.

(c)The World Bank can provide technical assistance/advice based on its world-wide experience in this area.

31. **Global agriculture-based supply chain**. The agri-supply chain is the linking of different actors from farm to end-user to achieve a more effective and consumer-oriented flow of products.[22] As the raw produce go through each link of the chain, it undergoes varying degrees of value adding such as processing and packaging before it is distributed to end consumers ultimately increasing the original value of the good. According to Kaplinsky (2000), the importance of the value chain lies in the concept that the chain is a repository for economic rents, i.e. each link in the chain carries a premium from which profits can be made. Increasingly, primary economic rents in the chain of production are to be found in the areas outside of production.[23] Key changes are occurring in the structure of food production, marketing, processing, and distribution that require parallel shifts in the type of financing provided by banks[24]. Globalization has highlighted the need for local economic agents to find their respective niches in the global supply chain if they are to compete and survive.

32. However, the government and private banks have yet to adjust their financial and credit policies, strategies and operating procedures to meet the emerging challenge from the global agri-supply chain. They have yet to devise appropriate lending strategies and financial services for local economic agents in the production, processing, marketing and distribution sectors and also for those engaged in providing local infrastructure support, searching for their respective niches in the global supply chain. Looking at rural financial markets from the perspective of global supply chains is a new area for the government in general and in particular for, DA and Land Bank of the Philippines. They need technical assistance from donors such as the World Bank to learn more about how global supply chain works, what kind of measures will be necessary to make it work for Philippine agriculture, etc. The global agriculture-based supply chain provides an entirely new framework to the Department of Agriculture, the Land Bank of the Philippines and the private sector to collaborate in financing rural development.

Recommendation:

[21] The recommendation ASSUMES that DA can effectively influence Land Bank of the Philippines to find creative ways to finance the agriculture and rural sector. It has potential allies in the Board of Directors: the Department of Agrarian Reform and the small farmers' representative in the board.

[22] Van Roekel, Jan, Sabine Willems and Dave M. Boselie. 2002. Agri-Supply Chain Management: To Stimulate Cross-Border Trade in Developing Countries and Emerging Economies.

[23] Kaplinsky, Raphael. 2000. Spreading the Gains From Globalization: What Can Be Learned From Value Chain Analysis? Journal of Development Studies. Volume 37, Number 2.

[24] Thomas Reardon and Julio A. Berdegué, "The Rapid Rise of Supermarkets in Latin America: Challenges and Opportunities for Development," *Development Policy Review*, 2002, 20 (4): 371-388.

(a) The Department of Agriculture should collaborate with the private sector, e.g., Chambers of Commerce, in order to identify the country's particular niche in the global value-added supply chain to determine the required support from government.

(b) The Land Bank of the Philippines should examine how its financial and credit policies, strategies and operating procedures can be supportive of private sector participation in the global value-added supply chain. For a start, the Land Bank should evaluate whether its financial products and services adequately respond to the demand for production, processing, marketing and distribution of farm-based products required by the value-added supply chain.

33. **Pension fund reforms**. The importance of pension fund reforms to develop the capital markets should be reiterated notwithstanding many studies produced by donors for the government calling attention to its importance. It bears emphasis in this short paper because a developed capital market would make available the longer-term financing needed by the economy. Banks have mostly short-term liabilities that do not match the desire of certain borrowers for funding long-term assets. Thus, rural finance policy reforms can not be an isolated effort but should be undertaken in the context of the reform of the whole capital markets.

Recommendation:

(a) The Department of Finance, as the agency responsible for policy coordination of the pension funds, should spearhead efforts in pension fund reforms as well as in the development of the capital markets. From the operational standpoint, DOF should review the sustainability of the pension fund system in view of the inadequacy of funding relative to defined benefits; the need to introduce more efficient management of the pension funds through private sector participation; and greater accountability of pension fund managers to the members of the fund and advocate for the required reforms for executive or legislative action.

III. Conclusion and recommendations

34. This brief paper reviews the post-reform situation in rural finance markets, indicated the policy gaps and provides specific recommendations for government action. The major gaps consist of the following:

- Non-termination of the remaining subsidized credit programs;
- Failure to develop details of the AMCFP and how the private sector can collaborate with government banks which were designated as wholesalers of the AMCFP funds;
- Lack of financing for long-gestating crops
- Inability of banks to provide funding in the range of Pesos 150,000 to Pesos 1 million, the so-called "missing middle of rural financial markets"
- The inability of credit cooperatives to become viable rural financial intermediaries
- The failure of government and government banks to consider rural households as business enterprises operating on-farm and non-farm economic activities;
- The lack of appropriate financing strategies and instruments to deal with the global agriculture-based supply chain;

- The need for pension funds reform and capital market development to make available long-term financing.

The recommendations were proposed right after the discussion of the gaps.

Annex C

INVESTMENT AND INDUSTRY PROFILES

Box C.1

WHY IS BUKIDNON AN AGRIBUSINESS HAVEN[25]

Success Factors: Supportive local government, peace and order, good infrastructure,

Bukidnon is located in northcentral Mindanao. It is landlocked and bounded in the north by Misamis Oriental, in the east by Agusan del Sur and Davao del Norte and in the west and southwest by Lanao provinces and on the south by North Cotabato and Davao City. The province is traversed by the Bukidnon-Davao (Buda) Highway, a major intra-island corridor stretching about 300 kilometers (km) from Davao City to Cagayan de Oro (CDO). The highway connects to the Pan Philippine Highway.

The capital city, Malaybalay, is about 96 km from CDO in the northwest; and over 200 km from Davao City in the southwest. CDO is the seat of industrial Northern Mindanao (Region 10) while Davao City is the seat of the agribusiness-based Southern Mindanao (Region 11). Bukidnon comprises two cities, 20 municipalities, and some 464 barangays.

Bukidnon has a land area of 829,378 ha, or about 8 percent of the total land area of Mindanao. Forty percent (40%), or about 336,000 ha is alienable and disposable (A&D); and the rest (60%), 493,400 ha are classified as "forest lands." Of the A and D land, some 92% are devoted to agriculture crops.

AGRIBUSINESS INVESTMENTS

Small farms (five hectares or less) dominate Bukidnon agriculture. They coexist with plantations and poultry and livestock investments. Small farms are extensive in most crops, particularly rice, corn, vegetables. Large pineapple, sugarcane and rubber farms are widespread. There is a long history of the attractiveness of Bukidnon to investors.

As early as 1926, Philippine Packing Corporation (then a subsidiary of Del Monte, U.S.A. and now Del Monte Philippines, owned by Singapore-listed Del Monte Pacific Ltd) started an integrated pineapple operation with a plantation in northern Bukidnon and a cannery-cum-port at Bogo, Misamis Oriental. Today, with about 18,000 ha, it is the world's largest contiguous pineapple plantation, producing easily 500,000 tons of processed products annually mainly for export. From pineapples, Del Monte has branched out into cattle fattening (at least 40,000 heads annually) where pineapple pulp is used as the primary cattle feeds, and papaya contract growing. All told, the investments amount to at least P5 billion at current costs.

Investments followed in abaca, coffee and cacao plantations by the Menzi Group; and years later, in coconut-cacao farms by ECJ & Sons, and coffee by San Miguel Corporation and Ramcar Group. Nestle at one time also operated a coffee clonal garden. Most of these have ceased operations for various reasons but mainly because of the advent of the CARP in 1988. Bukidnon is also known for cattle farms, but these have downsized due to various factors such as the CARP which limited the land-animal ratio, illegal entry into pasture lands, etc.

Sugar mills. Bukidnon is host to two sugar mills: Bukidnon Sugar Company (Busco) with 10,000 tons per day (tpd) capacity and a refinery and Crystal Clear Sugar Company with 4,500 tpd capacity.

[25] This write up drew heavily from the report prepared by the author for the Diversified Farm Income and Market Development Project of the Department of Agriculture, with funding support from the Food and Agriculture Organization, January 2003.

Busco was established in 1976 while Crystal Clear was set up only in 1997. The total investments in current costs may be in the order of P1.5 billion. Busco produced 206,179 tons in crop year (CY) 2001-2002. Meanwhile, Crystal's output totaled 112,725 tons in CY 2001-2002. The combined cane area in CY 2000-2001 was 40,106 ha which included deliveries from North Cotabato and Lanao del Sur (SRA, 2002). Land Sat imaging indicated 60,000 hectares, excluding vacant land in mid 2002. Reports suggest that the expansion has cut into corn lands and rubber areas.

In the last ten years, large investments were made in highland Cavendish bananas, poultry breeding, swine contract growing, and highland vegetables; and to a certain extent, mango farming. Recently, new investments in corn centrals have been made.

Cavendish bananas. The drive by multinational firms for product extension in the global markets led to investments in "Super Sweet" Cavendish in Bukidnon. Why Bukidnon? It is because the variety requires high elevation. Today, Dole has planted over 3,000 ha in seven municipalities while Mount Kitanglad Agriventures (MKAVI), an Italian-Filipino joint venture, has about 750 ha in one municipality. Highland banana exports have a premium of over 50% in the Japanese market. All these entailed at least P3 billion in investments. Banana is also highly labor-intensive. In addition, a sister firm of MKAVI has planted at least 200 ha of organic asparagus in the municipality of Talakag.

Poultry. Good climate has attracted Manila integrators to establish contract breeding schemes in the area. They are: San Miguel/Purefoods, Tyson Agri-ventures, Swift Foods, and Vitarich, plus one local operator, Fresh Choice. About 80 modules with 20,000 to 30,000 birds (over 1.6 million birds) produce eggs for day old chicks for broilers, over 60% of which are shipped outside Mindanao. Investments at current costs amount to about P1 billion. Moreover, there are over 20 units of hatcheries for day-old chicks. The breeding farms serve broiler farms in Bukidnon (about 750,000 to 800,000 birds) and Misamis Oriental (about 2.5 million birds) producing about 15 million birds a year. The investment cost (structures, excluding land) for broiler farm in Bukidnon alone is about P75 million.

Feedmills. To support the above operations, several large feedmills operate in the region. The bigger ones are operated or contracted by the integrators. San Miguel Purefoods has four feedmills (two company owned and two with partners) with a capacity of 55 tons per hour. Swift Foods and Tysons have one each at 20 tons/hr. The San Miguel Group alone requires about 140,000 tons of corn for its Mindanao operation.

Livestock. Swine raising is another investment area. There are about 10 independent farms with over 100 sow-level. Moreover, Monterey Farms, a San Miguel subsidiary, undertakes several contract growing schemes: breeding; nursery; and growing. According to reports, there are eight contract breeders and nursery; and 11 contract growers. A breeder farm has at least 500 sows. All these entailed over P200 million in investments (excluding land) at current costs alone. Altogether, the total investments are estimated at P1 billion.

Corn. Access to large corn supply is one of the attractions to investments in poultry and swine. Bukidnon is the second largest corn-producing province in the country. In bulk post harvest facility, one large investment has already been made – the Mindanao Grains Processing Corp (MGPC) in Malaybalay. MGPC has shellers, mechanical driers, silos and warehouses. MGPC can serve some 10,000 ha, or about 80,000 tons of corn per year. It can dry at least 30,000 tons grains per season (6,000 ha at 5 tons/ha) from 30% to 14% moisture content at 400 tons/day. It has a storage capacity of 5,000 tons silos (plus another 6,000 tons silos in 2003) and a 800 ton/day cob pre-dryer. Limketkai and Sons is constructing a new facility that can serve about 5,000 ha (40,000 tons/yr); and a similar facility is planned for South Bukidnon. Post harvest facilities appear inadequate for a total production of about 500,000 tons, including those from nearby areas of North Cotabato and Lanao del Sur that exit through Bukidnon to CDO.

Vegetables and Cutflowers. There are a number of investments in vegetable farms of over 10 ha but these are difficult to estimate. According to industry sources, at least three farms grow roses and mums on at least 1 ha of land. These horticultural pursuits are sunshine businesses, provided logistics costs to Metro Manila are addressed. (*Note:* The Northern Mindanao Vegetable Growers Association - NorMin Veggies - has become a key player in high value vegetable supply to Manila as of 2004).

Estimated Private Investments, at Current Costs

Item	Amount, P million	Remarks
	>5,000	Del Monte
Pineapple		
Highland banana	73,000	Dole and Mt. Kitanlad Agriventures Inc.
Sugar milling and refining	1,500	Bukidnon Sugar ; Crystal Clear Sugar
Corn post harvest	>250	MGP, Limketkai, etc
Coffee	800	
		Various farmers
Rubber	160	Various farmers
Organic asparagus	≥ 40	Mt. Kitanlad Devt Corp.
Poultry breeding	1,000	Integrators and contract growers
Broiler growing	100	Growers
Swine	1,500	Growers
TOTAL	>13,300	
	($256M)	

Source: Author's estimates from pooled sources, September 2002

PROSPECTS

What makes Bukidnon an attractive investment destination? There are several factors. First is the favorable climate and topography. It is away from the typhoon belt, has good rainfall pattern, and has varied elevations good for tropical agriculture. Second is location. It has relatively good infrastructure (provincial and national roads) that connects the province to major ports. The completion of the Buda province has opened the province to a major international port in Davao City. Third is favorable peace and order conditions. Fourth is supportive local governments. And fifth, well-organized industry associations like the umbrella organization - Caffinormin (Chamber of Agriculture, Fishery and Food Industries in Northern Mindanao). Bukidnon has significant potential for agriculture development in at least three fronts: yield improvement, area expansion of promising crops, and further diversification.

Box C.2

THE CANNED TUNA INDUSTRY IN MINDANAO

The canned tuna industry is the Philippines' third largest agri-food export after coconut oil and fresh banana. The industry contributes about $160 million yearly to the country's economy and provides livelihood to about 100,000 people. It caters primarily to the export market with 95% of output going into the international markets and 5% to the domestic market.

Mindanao is the center of the country's canned tuna industry, especially the cities of General Santos and Zamboanga. All eight canneries are located in the region. On the fishing side, there are about 300 purse seiners and 2,500 pump boats. Mindanao possesses comparative advantage in terms of low labor costs and proximity to the fishing grounds. In 2002, the industry employed about 15,800 people with total payroll of P978 million. It bought P7.6 billion worth of raw materials i.e. fish, cans, labels and cartons in the same year.

Overall, the industry operated at 57% of capacity with some canneries achieving more than 85% utilization. The shortage of raw material for processing resulted to under utilization of canneries.

The local canned tuna production grew by 9.8% per year from 1995 to 1998. However, due to weak demand and discriminatory tariffs of importing countries, it experienced a downtrend like other ASEAN producers. From a high of 9.8 million cases in 1998, it subsequently declined by 6.7% yearly until 2001. In 2002, it managed to surpass the 1998 output, reaching 10.5 million cases or 92,400 tons (1 case ~ 8.8 kg). This turnout would place the Philippines fourth in the world in terms of canned tuna production. Bulk of production is exported to the USA and EU markets.

While the tuna industry has managed to put its act together in countervailing problems, there are still concerns that persist. Among the on-going concerns in tuna processing and fishing are the disparity of tariffs imposed by the major markets that renders the Philippine exports uncompetitive and the need to address the Exclusive Economic Zones (EEZ) which limit access of the local fishermen to resource-rich neighboring zones.

In 2002, the US Trade Act was passed. It afforded zero duty to pouched tuna only for Andean countries but this was limited to only 4.8% of the US domestic consumption. Meanwhile, import duties on canned tuna were set at 6% (in-quota) and 12.5% (out-quota). Further in 2003, the EU allowed the Philippines together with Thailand and Indonesia to ship 25,000 tons of canned tuna with tariff rate down to 12% (in-quota) from 24% (out-quota). The Philippines' allocation is 9,000 tons. Conversely, canned tuna exports from African, Caribbean and Pacific (ACP) and Andean countries enjoy zero percent duty.

Although these have provided some relief to Philippine canned tuna exports, the local industry is yet threatened by other continuing Free Trade Agreements. According to key industry players, some of these agreements that can impact the local industry include: the renewal of Andean Trade Preference Act by 2005; existing EU duty free agreements among ACP countries; Ecuador's target of achieving zero duty in 10 years for canned tuna to the US (Ecuador already enjoys zero duty for tuna in pouch to the US); the North American Free Trade Agreement (NAFTA); the Central American Free Trade Agreement (CAFTA); the USA – Australia FTA; and Thailand's initiatives to get zero tariff to USA.

With EEZ that restrict fishing access and limited local supply, it is important for the fishing sector to sustain continuous access to fish. The existing fleets in the Philippines can support the growing canning industry with an assured right of entry to fishing grounds here and abroad. Thus, foreign bilateral fishing access agreements (Palau, PNG, Kiribati and Federal States of Micronesia) must be pursued by the Department of Foreign Affairs and the industry.

Box C.3

SEAWEEDS/CARRAGEENAN INDUSTRY: ADDRESSING SUPPLY BARRIERS

The Philippines has a competitive edge in the world carrageenan industry. It is the largest PNG (Philippine Natural Grade or semi-refined carrageenan) manufacturer in the world. With respect to refined carrageenan, it is the third largest.

Eucheuma sp. is one of the important species of seaweeds grown in the Philippines. It is the source of carrageenan, a substance used in products that *need* gelling, suspending, thickening or water-holding properties. *Eucheuma s*eaweed is largely cultured in Mindanao accounting for about 75% of total output. Almost 60,000 hectares of shallow coastal waters are being farmed. The largest concentrations are in Sulu, Tawi Tawi, Palawan, Zamboanga del Norte and Bohol. There are growing areas in almost all coastal areas in the Philippines. Production areas are subdivided into six clusters nationwide. There are more than 100,000 families directly dependent on seaweed culture.

Seaweed Industry Performance, 2001-2003

Year	Production (Tons)	Number of Families	Area (Ha)	Export (US$'000)
2001	118,460	108,265	43,306	131,625
2002	125,254	115,474	57,841	138,439
2003	127,693	116,084	58,420	143,592

Source: SIAP

According to the Seaweed Industry Association of the Philippines (SIAP), refined carrageenan exports amounted to US$41.4 million (4,874 tons) in 2003 from US$33.4 million (3,197 tons) five years before. In 2003, SIAP estimated that total industry exports reached US$143.6 million worth of raw seaweeds, PNG and refined carrageenan. Raw seaweeds comprised 10% of the total exports, PNG or semi-refined carrageenan 61%, and refined carrageenan, 29%. The major markets were USA, France, Hong Kong, Denmark and Great Britain

Exports by Product Type, 1999-2003

ITEM	1999	2000	2001	2002	2003
VOLUME (tons)					
Raw Seaweeds	25,359	35,770	32,387	34,006	27,540
Semi-refined	17,830	19,106	19,620	20,601	22,201
Refined	3,198	2,873	3,933	4,130	4,874
TOTAL (raw eq.)	121,580	134,589	140,339	147,583	151,815
VALUE (US$ '000)					
Raw Seaweeds	21,063	23,409	18,335	19,252	15,067
Semi-refined	74,304	80,969	76,611	80,442	87,103
Refined	33,347	26,321	36,678	38,511	41,423
TOTAL	128,714	130,700	131,624	138,439	143,592

Source: SIAP

According to SIAP, the Philippine seaweed processors have an estimated total investment of approximately US$134 million for processing plants, P12 billion in seaweed farms and facilities and P3.9 billion in seaweed trading. There are almost 10,000 direct hired workers, skilled and unskilled for carrageenan plants and trading business.

However, these processors are only operating at 50-60% capacity due to tight raw material supply. Local processors are facing raw material supply shortage due to low production and raw seaweeds exports. Compounding to the deficit in supply is the deterioration of the quality of raw seaweeds from farmers and traders. High current prices have contributed to early harvesting and insufficient drying

resulted in high moisture content, low yield and low functional property of the carrageenan produced. Adulteration with common salt to increase the bulk density and weight has also been reported. These are being undertaken by some farmers/traders to take advantage of the high prices. For the local processors, this is a losing situation. Operating at about 50-60% capacity utilization due to lack of raw material, translate to frequent plant downtime and therefore high overhead. Furthermore, high seaweed prices and low yield due to adulteration and early harvesting translates to high variable cost per kilo and low quality end product.

To address this problem, the government together with the private sector created the National Integrated Seaweed and Seaweed Products Development and Promotion (NIS-SPDP) program to maximize the growth potential of the seaweed industry. The immediate concern of the industry is to increase seaweed production thru maximizing all suitable areas and government private sectors resources. The targeted areas for development are 14 new provinces and 36 provinces for expansion.

The estimated global Euchema cottonii supply of 170,806 tons per year could only meet 77.5% of the global demand of 220,000 tons per year. The Philippines supplies 127,700 tons per year, or only 58% of the demand. There is more room for growth which the local industry would like to fill-in through area expansion. However, supply continued to be low. In 2003, production increases is only 10% of the projected 31.5% growth per year for processors. The reason for the supply shortage was the entry of Chinese traders into the country to buy raw seaweeds from the farmers at prices higher than what local seaweed processors are offering. Chinese processors, previously insignificant players, suddenly became major buyers of raw seaweeds for exports. This resulted to high prices of raw seaweeds.

The Philippine seaweed processors are competing among themselves and with Foreign carrageenan producers in the global carrageenan market. Likewise they are also competing in the sourcing of the major raw seaweed material. The industry projected that the export of processed seaweeds or carrageenan can increase if there will be ample supply of raw seaweeds i

Collective efforts from the government and private sector should be undertaken to address this problem. Supply constraints can be remedied thru loan provisions to farmers as seedling purchases are needed to rehabilitate seaweed farms and for nursery development efforts. Farmers claim that they cannot plant due to budget constraints as there is lack of available loan windows for them. The NIS-SPDP thru Land Bank and Quedancor had set the following targets to achieve its goal of increasing industry output.

2005	**2006**
• Loans to new targeted 36,400 farmers'families at P23,000 each – P837 million	• Loans to new targeted 31,800 farmers'families at P23,000 each – P731 million
• Loans to traders estimated to P1.2 billion	• Loans to trader eastimated at P1.1 billion
• Training seminar cost of P400,000	• Training seminar cost of P200,000
PAYMENT SCHEME	
FARMERS LOAN	TRADERS LOAN
• Initial payment of the loan starts 6 months after • full payment of the loan becomes due 12 months after its release • Leader/Trader or Cooperative will collect the payments thru deduction from sales of farmers	• Loans are released based on 70% of the value of its running inventory. • Upon delivery to the processors or raw exporters, traders notify the bank and processors or raw exporters will release its payment to the Bank or QUEDANCOR, and excess will be paid by the creditor to the trader.

Box C.4

THE CAVENDISH BANANA EXPORT INDUSTRY

Success Factors: Supply chain management; peace and order

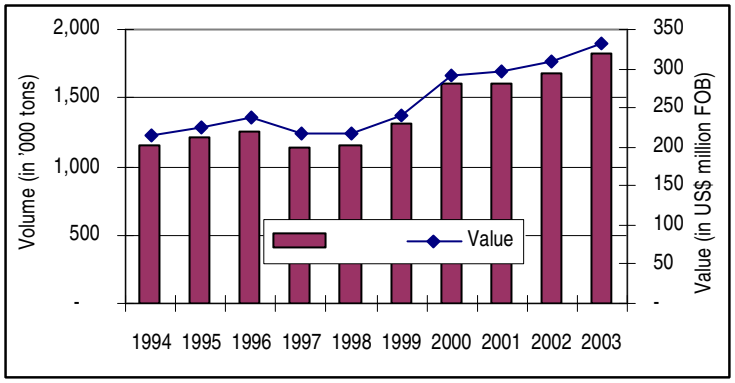
Cavendish banana second largest agricultural export after coconut oil. During the past 10 years (1994-2003), the country shipped nearly 1.4 million tons of fresh bananas annually valued at over $250 million yearly. The produce is harvested from over 40,000 hectares of land in Mindanao, particularly in the Davao Gulf area, South Cotabato, Maguindanao and Bukidnon, with expansions in North Cotabato and Sultan Kudarat. Most plantations have well-established production and marketing arrangements.

The banana export industry traces its roots in 1968 when multinationals transplanted the Central American technology to the Philippines in order to supply the Japanese market. In 1969, exports were only 23,400 tons ($1.33 million). Two years later, they surged to 267,200 tons ($15.4 million). By 1980, they reached 922,700 tons ($114.2 million). Taiwan lost a large chunk of its market to Japan. The 1980s was a period of consolidation as the Japanese market became saturated.

The opening of the China and Korea markets in the 1990s as well as increased demand in the Middle East paved the way for an upswing until today. The opening of the Taiwan market also helped. By 2003, exports reached 1.8 million tons valued at $333 million.

During the past decade, the industry grew by 5.6% on volume and 5.2% on value. While the biggest market remained to be Japan, the expansion was driven mainly by growth in other markets like China, Taiwan, the Middle East (e.g. United Arab Emirates, Saudi Arabia and Iran), South Korea, and New Zealand. The volume of exports to Japan, which absorbed about half of the shipments in 2003, grew by only 2% per annum during the same period.

VOLUME AND VALUE OF EXPORTS, 2003



Source: FTS, NSO

Today, the major brands/industry players by export group are: Del Monte Fresh Produce *(supplied by Tadeco, Lapanday Foods, Dizon Farms);* Stanfilco/Dole *(Cooperatives, Small Growers, AMS, Sarangani Agricultural Co. Inc.)*; Estrella/Mabuhay *(Lapanday – Global, Lapanday-Hijo, Small Growers)*; and Chiquita/Del Sol *(Marsman Drysdale and La Frutera).* The major suppliers are Lapanday, Stanfilco/Dole and Tadeco. Some of these companies have contract growing arrangements with farmers. They advance the inputs to the farmers and in turn, the farmers sell back their harvest to

them at a pre-agreed quality and price.

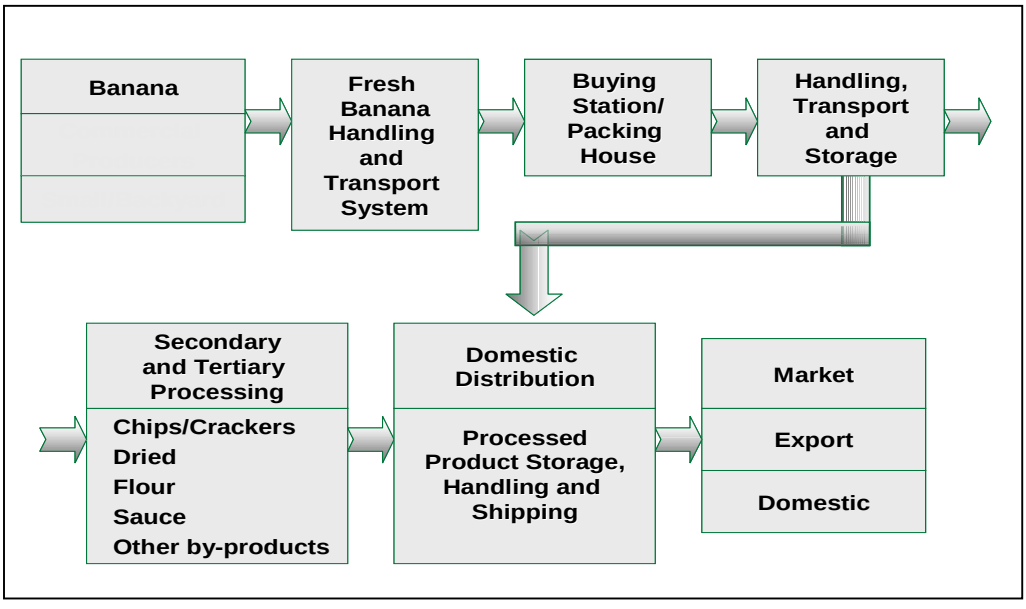
The advent of the Comprehensive Agrarian Reform Program (CARP) in 1988 caused banana firms to: (a) expand into contract growing as they lost control of the plantations; (b) opt for the ten-year commercial deferment; and (c) lease lands from medium to large landowners with the help of land consolidators.

There is a preference for experienced farm managers/supervisors as contract grower. As they have no lands, they lease lands paid ten years in advance through land consolidation.

SUPPLY CHAIN

A key ingredient of success in Cavendish banana is supply chain management as follows:

- Planting materials are selected from the best performer through continuing R and D. The fruit is market tested before going into mass production. Tissue culture labs and nurseries are important part of the supply chain.
- The land where banana will be planted is selected according to soils, terrain and climate. Investments in drains and farm roads as well as irrigation (drip, undertree, etc.) are put in place.
- The seedlings are planted according to distance and densities that will optimize yield and quality. Props are provided to support the heavy weight of the fruits and not left to chance.
- Plants are provided the necessary nutrients, water and pest and disease protection. Every plant is color coded and monitored. Eventually, the fruit box that reaches the market (e.g. Japanese supermarket) has a code that will indicate which farm parcel it came from.
- Harvesting is scheduled by blocks. The fruits are handled with TLC (tender loving care). They are loaded in cable ways and brought to on-farm packing house for cleaning, sorting, and packing into boxes (e.g. 13 kg, 18 kg, etc. depending on market) and loaded in trucks to the dedicated port. Some firms do have cold rooms at the port side to maintain shelf life.
- Fruit boxes are loaded into dedicated ships with 80,000 to 150,000 boxes per boat



PROSPECTS

The industry growth hinges on the country's ability to open up new markets and extend the product mix. The Australian market offers tremendous opportunities considering its large demand for Cavendish bananas at 15 to 20 million boxes (200,000-250,000 tons) a year. The Philippines, however, has yet to hurdle the quarantine requirements in this market.

China with 1.3 billion people is also a potentially large market. There is room for increasing its relatively low per capita consumption of only half a kilogram per year compared to Japan's 10 kilograms per capita. Another market is New Zealand, which has one of the highest per capita consumption of bananas at 18 kilograms. It has, however, a small population. Other promising markets are the Middle East and Taiwan.

There is also growing demand for sweet highland bananas as well as organic bananas in the world market. Some growers in Mindanao are turning to the uplands for "green farming" or those that use the least amount of fertilizers. There is a hefty premium on "green bananas." In the domestic front, small volumes of Cavendish bananas from Mindanao are now finding their way into the supermarkets in Metro Manila although these are mainly the class C bananas (or those not suitable for export).

On the whole, there is need to intensify marketing activities in existing markets and tap new markets in order to sustain the industry's growth. The ASEAN-China Early Harvest Program would provide impetus for the expansion of banana exports to China.

Box C.5

WHY ARE SOME PLACES BETTER THAN OTHERS?

Success Factors: Infrastructure, strong private sector, supportive local governments, development champion

Regional growth centers (RGCs) were development thrusts during the Ramos administration. The more prominent were: Calabarzon (Cavite, Laguna, Batangas, Rizal and Quezon provinces) and Socsksargen (South Cotabato, Sultan Kudarat, Sarangani and General Santos City). The experience wwas mixed. Some were far better than others.

In 1996, an attempt was made to rate RGCs according to eight criteria. These are climatic endowment, location, infrastructure, well-organized private sector, rate of local investments, supportive local governments, investment promotion, and development champions. Key Mindanao regional growth centers rated well compared to Calabarzon. However, certain Mindanao regions were not included as they would not pass the test.

Assessment of Key Regional Growth Centers

Criterion	Socsksargen	CIC	Davao Gulf	Calabarzon	North Quad
Agro-climatic Endowment	1	1	1	2	2
Geographic Location	2	2	2	1	1
Infrastructure Endowment	1	2	2	1	1
Well-organized private sector	1	1	1	2	3
Rate of Local Investments &/or Reinvestments	1	1	1	1	3
Supportive Local Governments	1	1	1	1	3
Investment Promotion	1	1	1	1	2
Development Champions	1	1	1	1	2
TOTAL	9	10	10	10	17

Legend:

1 = Very satisfactory

2 = Satisfactory

3 = Needs improvement

Socsksargen – South Cotabato, Sultan Kudarat, Sararangani and General Santos

CIC –Cagayan-Iligan Corrigor (Cagayan de Oro, Misamis Occidental, ILigan City, and Lanao del Norte and Bukidnon

Davao Gulf- Davao City and Provinces

Calabarzon – Cavite, Laguna, Batangas, Rizal and Quezon

North Quad – Ilocos Region and Pangasinan

Source: The World Bank. Promoting Equitable Rural Growth Project File Agro Industry and Rural Value Added Component by Broadwith and Dy, 1996

BOX C.6

PAGLAS, MAGUINDANAO

Success Factors: Development champion; LGU governance

For many years, Datu Paglas, Maguindanao, in the Autonomous Region of Muslim Mindanao (ARMM), was characterized by underemployment and inter-ethnic violence. Today, over 2,000 people, mostly Muslims, are employed by the Paglas Corporation and La Frutera Inc., which are partners in a 1,300-hectare banana plantation in the area.

In 1988, the young Datu Ibrahim III Paglas (nicknamed *Toto*) became the major of Datu Paglas. At that time, the town was over-run with bandits and terrorists. The picture of Datu Paglas today provides a striking contrast. It is a peaceful place where employment opportunities have increased dramatically, and the once-half empty school is full of children. The town now boasts of a rural bank, and several *sari-sari* stores line the lesser streets of the town. Every few hours, a "Cowboy" truck loaded with boxed bananas sets off for Davao City, the port for Japan, China, Korea and the Middle East.

When Toto Paglas first took over as mayor, his first task was to make it clear that any criminal or terrorist activities would not be tolerated. Being the latest Datu from a respected family, his influence stretched far. His family ties to many of the MILF commanders, including Chairman Salamat, meant that he was able to appeal directly to the MILF leadership. By 1990, the peace and order situation in the town was significantly improved, and Toto Paglas began actively seeking investment, having committed his substantial family lands for lease, and persuaded other landowners in the region to do the same.

In 1994, Toto Paglas made contact with a foreign investment consortium (represented by the local group, Oribanex) which had investments in banana plantations in Mindanao and was eyeing expansion. When the investors first heard of Datu Paglas, they were highly skeptical. But encouraged by the dynamic young mayor, and the amount of land available, they made a commercial assessment. The potential was immediately apparent: limitless supplies of fresh water, very good soils, a ready supply of local labor and perhaps, most importantly, in Toto Paglas, they saw a strong and inspiring leader.

In 1997, Toto Paglas, having completed his three terms as mayor, set up the Paglas Corporation, while the investors established La Frutera Inc. Overseas investors from Italy, Saudi Arabia and the US put up the bulk of the initial financing, while the Ultrex investment group from Manila took on the responsibility for most of the day-to-day management of La Frutera. La Frutera then sub-contracted the recruitment of labor, the provision of security and the transport operations to the Paglas Corporation.

State-of-the-art irrigation technology was provided by an Israeli engineering firm. Recently, the plantation broke the world record for the heaviest bunch of bananas. La Frutera directly employs 300 staff (with less than 100 workers coming from outside the immediately surrounding area). Paglas Corporation directly employs 700, with a further 400 in contract workers and suppliers. Toto Paglas has made sure that each family in the town has at least one member employed in the plantation or servicing companies. Some 20 percent of Paglas Corp. and La Frutera's employees are Christians, while 80 percent are Muslims, most of whom were former MILF combatants and battalion commanders.

Outside the plantation itself, the economic impact is also felt. The Rural Bank was established on Toto Paglas's initiative and with his own seed funding in March 1998. Central Bank and Land Bank now both contribute to a loan portfolio of around 8 million pesos. The bank has a small business expert and credit investigator and has helped start up over 50 small enterprises in the past 2 years (maximum loan being 20,000 pesos). It has over 3,000 customers and currently sees a 90% repayment rate on both commercial and private loans. The vast majority of its customers have never held bank accounts before, as working in the plantation has been for many their first experience of a regular salary.

Initially Christian plantation workers, from General Santos, Cotabato and the surrounding regions, were brought in as trainers and supervisors. Toto Paglas gave his assurance that the Christians would be under his personal protection, and even located their accommodation close to his. Today the Muslims and

Christians work together in harmony, and the Christians are no longer seen as "trainers" or any more specialized than the Muslim employees. The Community Relations Unit of La Frutera, has organized workshops to increase understanding between the two cultures, and religious leaders from both sides have been brought in to give seminars on Islam and Christianity. Toto Paglas says: "We all worship the same God; we just call him different names." Children from both communities attend the local school; enrolment has increased. "Spider," an ex-MILF Company Commander, is now the most senior plantation supervisor. His children are in school and eating well.

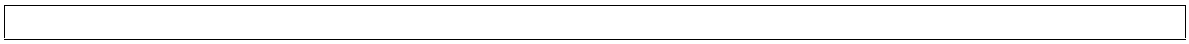
The investors describe their biggest challenges as being the security situation and ignorance in how to do business with Muslims. The culture and environment felt alien, even for those with many years of experience of investing in plantations in other areas of Mindanao. Without a doubt, the most critical condition which made this investment possible was the leadership and vision of Toto Paglas. When the conflict between the MILF and the GRP forces broke out again in early 2000, the ex-MILF Muslims working in the plantation offered to resume their posts. But Chairman Salamat issued an official announcement that all plantation workers were to remain with their jobs. He is quoted as saying: "We can have no peace without development. The success of this plantation is critical to the peaceful future of Muslim Mindanao. The world must be shown that business can be done here and that economic investment is viable." The investors stress that no protection money has ever been paid, and absolutely no donations have been made by either company to the MILF, nor have there been any financial solicitations, direct or indirect, from the MILF itself.

The willingness of the investors to take the initial risk in this project is also critical. Their openness to do business in what was effectively a foreign culture and potentially threatening environment showed courage and vision. The investors believe that they have learnt much about how business operates in the Muslim culture, and no longer see why it should create a barrier for Christian business groups. The General Manager of the Paglas Corporation, describes how impressed he was with the potential of the project, both in business terms, but more importantly, in terms of cross-cultural understanding and co-operation. He believes that the lessons learned from Datu Paglas can help other areas of the ARMM to attract the desperately-needed investment. Senen Bacani, former Agriculture Secretary and a key executive in La Frutera, stressed that Toto Paglas was instrumental in convincing the Paglas and powerful families to lease their lands.

Other groups have also played a part in this story. CIDA (the Canadian International Development Agency) funded a local governance capacity-building program. The local government authorities are supportive and proud of the plantation. NGOs have worked on small-scale enterprise development, health and literacy programs in the area. UNDP and ILO are investing in a program of La Frutera's Foundation, to train wives of plantation workers in dress-making, and in particular to produce overalls which will be used in the plantation packing warehouse (and therefore a ready market is provided). La Frutera's Foundation has focused on livelihood (dress-making and bolo-making) and literacy programs. There are also plans to train families in backyard vegetable gardening to help supplement diets.

The Paglas Story shows that economic investment can promote long-term peace and political stability. There is a need to convince both external investors and local leaders within Muslim Mindanao that developing plantations or other economic activity is viable, and contributes to long-term peace and stability. Many investors and business people have commercial interests in seeing a resolution to the conflict, and the case of Datu Paglas shows that one of the most effective ways in which to achieve peace and stability is, in fact, through mainstream commercial investment. The ARMM represents the largest area of undeveloped land in the Philippines. The soil is high quality and the access to labor at relatively low costs is unparalleled. In Datu Paglas, a combination of visionary local leaders and far-sighted investors have managed to break the vicious cycle of poverty and violence which still characterize much of Muslim Mindanao. A recent report indicated that Paglas Corporation and La Frutera Inc are considering to invest $50-million dollars for the expansion of their banana plantation in Wao and Bumbaran towns in Lanao del Sur, both in ARMM.

References: CSR Forum.com
Growth with Equity in MindanaoGEM/USAID) Program



Box C. 7

OIL PALM CONTRACT GROWING

Success Factors: A nucleus firm; access to long-term financing

The Agumil Group is the most dynamic company in promoting the contract growing of oil palm in the Philippines. Today, it has 1,800 hectares (ha) of core plantation, and over 10,000 ha of growers (over 1,800 in number) in various provinces in Mindanao and the Visayas.

In 1982, a group Malaysian, Singaporean and Filipino investors established Agusan Plantation, Inc (API) to invest in oil palm in the Philippines. Total plantings from 1984-1989 covered 1,800 hectares of oil palm plantation in Trento, Agusan del Sur. As foreigners are not allowed to own land in the Philippines (and can only lease up to 1,024 ha), the National Development Company (NDC) under the Department of Trade and Industry used the capitalized leased for its land as equity. With the advent of CARP in late 1980s, NDC, in compliances of the law, transferred ownership of its land to API farm workers. In turn, API leased the land from its workers.

For many years, API sold its fruits to a nearby palm oil mill. In1998, the investors established Agusan Mills, Inc (Agumil) with an initial capacity of 20 fruit bunches (ffb) per hour. As a result, it started buying from independent growers. Knowing the potential of palm oil, the now known Agumil Group aggressively expanded its growership program in Mindanao. At the same time, it has a growership program in Bohol Island with a joint venture with local investors, Palm, Inc.

What is Agumil's growership program? The company identified four types of schemes with varying degrees of investment on the part of the company and the grower. In the first scheme, the company advances the seedling cost to the growers cooperative who assumes the development cost through financing from Land Bank. The second type is similar to the second except that the development cost is financed from grower's equity. The third type uses a conduit, which borrows at a rediscounted rate from Land Bank, to finance development costs. The fourth is purely financed from grower's equity.

Financing options in oil palm development

SCHEME	DESCRIPTION
I	Agumil advances seedlings to growers cooperatives. (Growers pay the advance in 5 to 6th year from planting.) Land Bank loan finances development costs with five years grace, interest payment capitalized, the loans paid from year 6 to 14.
II	Agumil advances seedlings to individual growers Growers pay in year 5 to 6th year from planting Development cost is funded by grower's equity
III	PALM Inc (an Agumil affiliate in Bohol) advances seedlings to individual growers. Development cost financed by First Consolidated Bank (FCB); FCB rediscounts from Land Bank
IV	All growers equity-financed

SOURCE: C.K. Chang (API, Agumil and PALM, Inc.)November 2004

AGUMIL GROUP: LOCATION OF GROWERS AND AREAS
(As of September 2004)

Company	Province	Planted Area (ha)	Number of Growers
Agusan Plantation, Inc.	Agusan del Sur	1,816	-
Agumil Mindanao Growers			
	Agusan del Sur 10 towns	2,650	117
	Agusan del Norte 2 towns	190	2
	Compostela Valley 4 towns	282	9
	Davao del Norte	27	14
	Surigao del Sur 3 towns	46	4
	Maguindanao 6 towns	523	16
	North Cotabato 10 towns	920	109
	Sultan Kudarat 8 towns	1,291	100
	South Cotabato 3 towns	140	15
	Total Growers Mindanao	6,070	386
Palm, Inc. Bohol Outgrowers	Bohol 20 towns	4, 361	1,431
Total, excl. core plantation	66 towns in 10 provinces in 5 regions	10,431	1,817
GRAND TOTAL		12,247	1,817

Source: Mr. C.K. Chang, Agumil Group

Box C.8

CHALLENGES FACING THE BEEF CATTLE INDUSTRY TODAY M INDANAO PERPECTIVE

Facts:

1. The industry is comprised of 8% commercial operations and 92% village level operations.
2. The cattle industry is an "underground economy" that subsidizes three basic needs of the middle and low income levels of our society, namely: education, hospitalization and special events (weddings, fiestas, funerals, etc.)
   This being the case, the supply of cattle to feedlot and slaughter operations is not a "business decision" but a "per need decision."
3. There is now an apparent "shortage" of beef to the groceries and wet market due to the decrease in importation of feeder cattle from Australia along with the ever increasing population. Import replacement also accounts for an increased demand in the market. (*The dynamics of the needs of meat processors differs greatly from that of the wet market as they are not dependent on live cattle slaughter. However, it is the hog sector that opposes massive importation of beef/carabeef by meat processors as they believe it replaces a market for locally produced pork, most especially when it finds its way to the wet market*).
4. The shortage of beef has created a "sellers market" with good prices for cattle raisers. However, decisions to sell are still as "per need" and funds thereof, will more often go to the "need" and not "plowed back to cattle production." Thus, resulting in a high extraction rate.
5. Land tenure has been and continues to be the biggest "threat" to commercial operations, thus, discouraging further investments in cattle production.
6. Sustainability of the beef supply is highly dependent on the "calving percentages" of the breeder population and on the "slaughter weight" of market cattle.

Beef Programs must address the following:

1. How to increase the calving percentages from 60% to 80% by 2006.
2. How to encourage that animals be slaughtered at their maximum weight.
3. How to provide the best genetics so that every animal unit has the capability to reach maximum weights of 500-600 kg at slaughter time rather than the current average of 350 kg.
4. A "buy back" scheme that will save "pregnant cattle" from the slaughter line.
5. How to encourage the growth of the industry as an "underground economy" while maximizing the Filipino desire to "own a cow" as a "medical and educational" insurance for the family.
6. How to encourage commercial producers to invest more funds to increase their breeding herds.
7. How to strengthen "security of tenure" for the last few remaining cattle ranches and government stock farms, which are a critical source for the breeder populations of our country.

The author of this document recommends that the statements made are validated and reviewed to analyze of this assessment is true for the other regions of the country. Likewise, each locality or region should create their own strategies taking into account their particular strengths and weaknesses.

By: Ms.: Iso J. Montalvan, Director, Chamber for Agriculture, Fisheries and Food in Northern Mindanao October 2004.

Box C.9

KEY POINTS IN THE AGRIBUSINESS SECTOR
An Agribusinessman Speaks

There are certain points that are not usually discussed but are important to players in the agribusiness sector**.** There is need to:

1. Simplify and reduce the requirements for registration and application for agribusiness enterprises. The local governments require so many clearances, BIR, DENR, etc., that some investors are discouraged and feel that they are unwanted and is treated as violators or criminals.
2. Provide and clear food and agri fisheries highways free from local government interference. Our highways have different rules and regulations being imposed by local governments thereby making transport costly and are full of slow moving vehicles such as tricycles. A loaded truck with 20 tons or more loads is very hard to handle./ most highways have no shoulder for these trucks to rest.
3. Re-engineer the marketing system for the major crops. Usually there are 5 or more levels of integrators before it reaches the processor or the consumer thereby depressing farmgate prices and making the commodity expensive for the processors or the consumers.
4. Limit the number of commodities to be promoted per province to five or less thereby creating the proper volume to entice the processors or agri-business investors to invest.
5. Make the consolidation of land for production by investors less cumbersome without much interference from the DAR. Ownership is not the question but management and control of the usage of the land.

By: Ricardo P. Provido, Jr., President and CEO, Agribusiness Center for Western Visayas Foundation, Inc. Iloilo City. October 2004.

Box C.10

RURAL POVERTY AND GOVERNANCE

For many reasons, it has been difficult for rural people to exert pressure on their governments. The recent crisis, however, has created opportunities to strengthen democratic mechanisms and political governance in rural areas. Lower levels of government are demanding increased autonomy and are encouraging increased participation in public matters by local communities.

Concerted efforts by central government are needed to extend important services to rural areas. Threes should include a legal and judicial system that guarantees the fairness and sanctity of contracts; an enforceable commercial code, a public registry where assets (including land), can be easily registered and transferred, an honest system of weights and measures, a transparent mechanism for conflict resolution, and enforceable property rights. These are all part of the normal fabric of business, but they are frequently absent in East Asia's rural areas.

Another powerful trend sweeping East Asia that is influencing the way the Bank works (and which the Bank has influenced) is the demand for increased transparency in government processes and finances. Corruption – the abuse of public office for private gain – is a major concern of the poor, since they are the main victims. Anecdotal evidence suggests that corruption is as prevalent in rural areas as it is in the cities, although its magnitude may be less.

Any program to combat corruption must limit the opportunities of public officeholders to abuse their position. Although we do not know enough yet to identify the best kinds of anti-corruption intervention, a number of measures can be identified, including performance-based and transparent government budgets; competitive base pay and transparent and non arbitrary awards to civil servants; severe sanctions for corruption, including sanctions against bribe-payers; arms-length, transparent, and non-discretionary government rules and procedures; independent external audits; and citizen review and oversight. These and other measures more specific to rural areas will be part of the design of poverty projects.

Source: Rural Development Strategy: Reaching the Rural Poor in the East Asia and Pacific Region. World Bank. October 2001.

Box C.11

NATURAL RESOURCE MANAGEMENT

Environmental degradation and poverty go hand-in-hand, and it is primarily the rural poor of East Asia who suffer the consequences of soil depletion, deforestation, overfishing, and polluted water. The poor are more often victims of environmental degradation than agents of it.

Although continued agricultural growth is a necessity for most countries in East Asia, this growth must not jeopardize the natural resources base nor impose costly externalities. These three goals – agricultural growth, poverty alleviation, and environmental sustainability - are not necessarily complementary, and success in achieving all three cannot be taken for granted. The new priority of environmental sustainability does not negate for rural development; it is just that rural development must now be achieved in ways that do not degrade the environment.

Since new land frontiers no longer exist, agricultural growth must come from intensified use of existing farmland, which arouses concern about depletion of natural resources. Experience shows, however, that agricultural intensification accompanied by land use innovations, farmer control of land, access to urban markets, and access to modern inputs can result in improved fertility and land use. It is rural poverty, exacerbated by greater population density and antiquated production methods, that is responsible for the degradation of land and forests.

Agroforestry is often seen as a way of maintaining or improving soil fertility. The complex agroforests of Sumatra, for example, are indigenous systems created by people living on forest margins. After original trees are partially cleared, the land, food crops are planted along with fruit and coffee trees. The new trees eventually produce **high-value fruit, coffee, and valuable lumber species**. Studies show that these agroforest communities have higher incomes than communities that grow only subsistence crops.

Source: Rural Development Strategy: Reaching the Rural Poor in the East Asia and Pacific Region. World Bank. October 2001.

Box C.12

THE RURAL INFRASTRUCTURE

There is a difference between access to, and provision of, infrastructure rather than on the provision of infrastructure itself. But it also means that the poor must have an explicit role in the selection and design of infrastructure. Rural roads, for example, are public goods. Rates of return can be high in rural regions that have access to urban markets or that produce exportable products. Thus, construction or upgrading of rural roads often brings about positive change in the array of agricultural products. Field crops are partly replaced by high-value perishable crops, such as flowers, fruits, and vegetables that must be moved to market quickly.

Road construction also provides other benefits. The effectiveness of education improves as better access to schools produces increases in school attendance and teacher absenteeism declines. Likewise, the number of visits to health clinics increases, the rate of immunization goes up, and the quality of healthcare is enhanced by steadier supplies of medicines. These benefits, however, are often not taken into account when decisions on building rural roads are made.

Other types of infrastructure, such as electric and telephone systems can be delivered privately, but underinvestment in such services is common because outmoded regulatory frameworks weaken the return on investment. To overcome this problem, targeted subsidies can be offered to private suppliers of infrastructure facilities in regions with high densities of rural poor. These subsidies can help pay fixed costs while leaving marginal costs unaffected in order to preserve incentives to achieve optimum levels of use. Reliable electricity is needed to operate home-based and other rural businesses, and for modern farming. Rural telecommunications are fundamental for obtaining market information for diversifying into non-agricultural sources of income and for long distance learning.

Source: Rural Development Strategy: Reaching the Rural Poor in the East Asia and Pacific Region. World Bank. October 2001.

Box C.13

AGRICULTURAL RESEARCH AND EXTENSION

Although agricultural research has produced a phenomenal increase in agricultural productivity over the last thirty years, much remains to be done. Nobel laureate Norman Borlaug estimates that to meet projected food needs by 2025, cereal yields must increase by 60 percent from the 1999 average. This formidable task will require intensive agricultural research as well as an enabling regulatory environment, fair trade rules, and responsive institutions. The countries of East Asia have invested heavily in agriculture research inn the past, and that forms a string platform from which to deal with future challenges.

In addition to investing in improved research on individual crops, countries in the EAP region are promoting the integration of crop-specific research into a broader system that includes sound management of natural resources and synergies between food and cash crops and livestock, agroforestry, aquaculture, and integrated pest management. A major policy issue being discussed in the region is the establishment of a better interface between public and private research, and publicly-financed but privately-provide research.

A second, and controversial aspect of agricultural research is the role of genetic engineering. The possibilities of genetic manipulation of plants and animals have attracted billions of dollars of investment. Although genetic engineering is very relevant to rural problems, it raises questions of ethics, intellectual property rights, and biosafety.

The Bank's role is to ensure that the interests of the rural poor in East Asia are not ignored in the private sector's rush to capitalize on this new technology. The debate on genetic engineering must be based on good science and economics rather than on emotion and misinformation. The Bank can help to shift the debate from confrontations between commercializers and critics to how to help developing countries design institutions to produce genetically modified crops that live up to their anti-poverty potential.

Other steps are also necessary to strengthen research and extension. Some of these steps, considered to be best practices, are already being implemented in East Asia, as in the Indonesia Decentralized Agriculture and Forestry Extension Project. Important features of new research and extension projects include:

- Strengthening the responsiveness of research and extension institutions to the needs of farmers through the creation of mechanisms for framer input;
- Recognizing that the public sector should not be the sole provider of research and extension services, even if it is necessary to finance private companies to provide such services; and
- Balancing decentralized (regional) control over research and extension with research done on the basis of agroecological zones, and subject matter specialists for extension

Source: Rural Development Strategy: Reaching the Rural Poor in the East Asia and Pacific Region. World Bank. October 2001.

Box C14

MICROFINANCE FOR RURAL DEVELOPMENT

Microfinance (MF) has evolved as an economic development approach intended to benefit low-income groups. The term refers to the provision of financial services to low-income clients, including the self-employed. Financial services generally include savings and credit, and some MF organizations also provide insurance and payment services. MF activities usually involve:

- Small loans, typically for working capital;
- Informal appraisal of borrowers and investments;
- Access to repeat and larger loans based on debt capacity and repayment performance;
- Streamlined loan disbursement and monitoring;
- Secure savings products.

MF clients are typically self-employed, low-income entrepreneurs in both urban and rural areas. Clients are often traders, street vendors, service providers (hairdressers, tricycle operators), small restaurant operators, artisans and small cottage industries. Usually their activities provide a stable source of cashflow and income (often from more than one activity).

Principles of Financially Viable Lending to the Enterprising Poor
Principle 1. Offer financial services that fit the preferences of low-income entrepreneurs.
These services include:

- Short loan terms, compatible with microenterprise (ME) business and income patterns.
- Repeat loans. Full repayment of one loan brings access to another although the size depends on the client's cash flow. Repeat lending allows credit to support financial management as a process rather than as an isolated event.
- Relatively unrestricted use of the loan. While most programs select customers with active enterprises (and thus the cash flow for repayment), they recognize that clients may need to use funds for a mixture of personal and business purposes.
- Very small loans appropriate for meeting the day-to-day financial requirements of businesses. Average ME loan sizes for rural banks in the Philippines start as low as PhP3, 000 per client.
- Customer-friendly approach. Locate outlets close to entrepreneurs, use extremely simple loan applications (often one page), and limit the time between application and disbursement to a few days. Develop a public image of being approachable to low-income people.

Principle 2. Streamline operations to reduce administrative costs.

- Develop highly streamlined operations, minimizing staff time per loan.
- Standardize the lending process. Make applications very simple and approve loans on the basis of easily verifiable criteria, such as the existence of a going enterprise.
- Decentralize loan approval.
- Maintain inexpensive offices while providing convenience to clients, such as through smaller banking outlets, sometimes called "money shops." Money shops provide easy access to established on-site banking facilities where money can be borrowed quickly and conveniently.
- Select staff from local communities, including people with lower levels of education (and hence lower salary expectations) than staff in formal banking institutions.

Principle 3. Motivate clients to repay loans. Concentrate on providing motivation to repay. These motivations include:

- Joint liability groups. An arrangement whereby a group of borrowers guarantee each other's loans is a commonly used technique. It has proved effective in many different countries and settings worldwide. Individual lending, based on the borrower's character as opposed to collateral, can be effective when the social structure is cohesive, as has been demonstrated in many of the areas served by rural banks in the Philippines.

- Client Incentives. Incentives such as guaranteeing access to subsequent loans motivate repayment, as do increases in loan sizes and preferential pricing in exchange for prompt repayment. Institutions that successfully motivate repayment develop staff competence and a public image that signals that they are serious about loan collection.

Principle 4. Charge full-cost interest rates and fees. The small loan sizes necessary to serve low-income clients may result in costs per loan that require interest rates higher than commercial bank rates (though significantly lower than moneylender rates). Low-income entrepreneurs have shown the willingness and the ability to pay such rates for loan services that fit their needs.

MABS OVERVIEWS

The Microenterprise Access to Banking Services (MABS) program is an initiative designed to accelerate economic transformation by encouraging the rural banking industry to significantly expand the ME access to MF services. To do so, the MABS Program assists client rural banks to increase the financial services they provide to the ME sector by providing MF technical assistance and training to rural banks. Trained banks in turn offer MF loan and deposit services specially tailored to ME clients.

Since its inception in 1998, the MABS Program has helped more than 200 rural banks/branches. While the MABS Program operates throughout the Philippines, most MABS activities are focused on Mindanao. Significantly, there are over 780 rural and cooperative rural banks covering over 85% of the municipalities and cities of the Philippines. These banks are culturally and geographically close to the potential clients that comprise the ME sector. It has been shown that limited access to financial services constrains economic growth. This is especially true for lower socio-economic groups, including ME, which must turn to moneylenders, pawnshops or lending investors for credit instead of formal institutions for credit. The MABS Program targets these lower socio-economic groups and microentrepreneurs by working with rural banks to reach such groups in a profitable, but equitable manner. The Program is funded by the U.S. Agency for International Development (USAID), and is being implemented in partnership with the Rural Bankers Association of the Philippines (RBAP). Philippine Government oversight of the Program is provided by the Mindanao Economic Development Council (MEDCo).

The MABS Program has become a successful model for increasing microenterprises' access to financial services and servicing poor clients in rural areas of the Philippines. MABS Service Providers (MSPs), private consulting firms that have been trained by the Program and accredited by RBAP, are presently providing MABS technical services and training to rural banks on a fee basis.

RATIONALE FOR MABS

According to several surveys, about 20% of all households in the Philippines depend on income from ME. The ME sector, clearly, is a crucially important component of the Philippine economy. ME, like all enterprises, need access to quality financial services if they are to prosper and grow. Yet, for all intents and purposes, ME are shut out of the formal financial sector. Because of outdated beliefs that the small size of loans demanded by the ME sector makes it impossible to make money providing those loans, most banks have not been willing to provide loans to ME.

As ME essentially do not have access to bank loans, they are forced to rely on much more expensive sources of credit - e.g., moneylenders, pawnshops-for their credit needs. The very high cost of this credit makes it almost impossible for ME to grow their businesses.

MABS believes that, contrary to "common knowledge," banks can make money providing loan and deposit services to ME if they "do it right." MABS' objective is to teach as many banks as possible to "do it right." MABS' hope and expectation is that, once banks realize that they can make a reasonable profit providing services to ME, they will make providing services to the ME sector a permanent and significant part of their business."

MABS has opted to focus its efforts on Rural Banks (RBs) because several factors make RBs an almost ideal vehicle for reaching the ME sector. These factors are:

1. RBs offer excellent geographic coverage. At present there are an estimated 1800 RB branches located throughout the Philippines, covering over 85% of all municipalities in the Philippines.

2. RBs are culturally and geographically close to the target market. Most RBankers have personal familiarity with scores of ME in their areas, and regularly use services offered by ME.
3. RBs tend to be small, locally owned enterprises. Their size and structure usually allows for loan decisions (and other decisions) to be made quickly. There is usually no need to refer decisions to a headquarters bank in a provincial capital or in Manila.
4. RBs' overhead costs are usually much lower than are the overhead costs of other types of banks. This makes it more likely that they will be able to make a profit even as they carry out the large number of transactions that are associated with ME portfolio.
5. Many RBs are being "squeezed" as commercial banks enter markets that formerly were exclusively theirs. As such, many are very interested in exploring potential new markets - like the ME market.

THE MABS OBJECTIVES

1. To assist participating rural banks and cooperative rural banks to increase the financial services they provide to the ME sector;
2. To provide technical assistance and training to participating rural banks to profitably and sustainably expand their loan and deposit services to ME;
3. To encourage technology transfer of proven Filipino and international MF best practices, technologies, loan pricing methods, deposit mobilization techniques, and management information systems (MIS) to assist banks in expanding their loan and deposit portfolios;
4. To ensure that participating banks make ME loan and deposit services a regular part of their portfolios, and that the successful example of participating banks will encourage other rural banks in the Philippines to expand their financial services to the ME market.

MABS TARGETS

By September 2007, MABS expects the following results to have been attained:

- Bringing the number of MABS Participant Bank units to 350 bank and bank branches.
- Total number of micro-borrowers served by MABS Participant Banks to exceed 500,000.
- Total number of new micro-depositors served by MABS Participant Banks to exceed 400,000.
- Expansion of training and technical support to thrift banks.
- Expansion of MF services to small farmers and owners of agriculture-based ME through the development and pilot-test of a new micro-agri loan product.

The International Finance Corporation (IFC), the private sector arm of the World Bank, has supported ME through its investments in Planters Development Bank's subsidiary, Microenterprise Bank.

Source: RBAP-MABS Website
Plantersbank Website

MICROFINANCE: MABS SUCCESS STORIES

Business	Client	Location	Initial Loan	Rural Bank
1.Grass straw weaving for banig (*mat*)	Ms. Mary Joy Bulay-og	Tagum, Davao	Php 3,000	RB Montevista
2. Softdrinks distribution	Mr. Toten Sambutuan	Datu Paglas Maguindanao	Php 30, 000	RB Datu Paglas
3. Bread & Fish Delivery	Ms. Elma Garan	Santo Tomas Davao	Php 15, 000	RB Sto. Tomas
4. Peanut biscuits	Ms. Josephine Alima	Isabela, Basilan	Php 25, 000	First Isabela Cooperative Bank
5. Market Stall	M/M Ernesto Sunico	Tacurog City, Sultan Kudarat	Php 25, 000	RB Tacurog
6. Vegetable Stall	Mrs. Emilia Montinola	San Carlos City, Negros Occidental	Php 10, 000	RB Victorias
7. Snack Foods	Victoria & Carlos Lim	Tandag, Surigao del Sur	N. A.	RB Catilan
8. Sari – Sari Store	Mrs. Nora Huyong	Tausug, Sultan Kudarat	Php 5, 000	RB Tausug
9. Market Stall	Mrs. Vergie de la Rosa	Cabadbaran, Agusan del Norte	Php 15, 000	Green Bank of Caraga
10. Fish Vendoring	Mrs. Candelaria Laher	Abuyog Leyte	Php 30, 000	RB Dulag
11. Fish Wholesaling Fishing	Mrs. Rosemarie Nuñez Rabaya	Dagocdoc, Surigao del Sur	***Php 10, 000***	RB Cantilan
12. Coconut Lumberyard	Mrs. Tessie Cabalida	Dipolog	Php 20, 000	RB Dipolog
13. Peddling of Clothes	Mrs. Alsie Angni	Tandag, Surigao del Sur	Php 3, 000	RB Cantilan
14. Tricycle	Bembiano Estrada, Jr.	Cantilan, Surigao del Sur	Php 40, 000	RB Cantilan
15. Market Store & Mini Grocery	Mrs. Natividad Regis	Abuyog, Leyte	Php 5, 000	RB Dulag

Source: RBAP-MABS Website (www.rbapmabs.org)

Annex D

The logic of contract farming is discussed in detail in a subsequent section of this chapter. At this point, it is sufficient to note three generations. First, these contracts provide advantages to both the firm and its growers, particularly with respect to risk and uncertainty. Prices, quantities and quality standards are often preset, allowing growers an assured market for their produce and firms an assured volume of material of consistent quality. The relationship is one of close interdependence between the firm and its suppliers.

Second, since the operations often include the production of new crops and techniques and generally involve processing or packing in factory-style operations, the social impact of these schemes can be wide ranging and often extends beyond the contract farmers to hired labor, other household members and rural communities in general.

Third, these operations involve companies of substantial size, sometimes operating in concert with government institutions and lending agencies. The coalition of interests within such an agribusiness venture can be complex and, from the farmer's point of view, formidable. Within the broad interdependence mentioned previously, there is considerable room for conflicts of interests, exploitation and bargaining, with internal dynamics changing significantly over time.

Theory and Practice of Contract Farming

In contract farming, a central processing or exporting unit purchases the harvests of independent farmers. These purchases can supplement or substitute for company production. The terms of the purchase are arranged in advance through contracts, the exact nature of which varies considerably from case to case. Contracts are generally signed at planting time and specify how much produce the company will buy and what price it will pay for it. Often the firm provides credit, inputs, farm-machinery rentals and technical advice and it always retains the right to reject substandard produce.

Contracting is most commonly practiced by food processing firms. Since their processing plants have high fixed costs, these firms have an interest in keeping raw material inflows at a steady level close to plant capacity. Relying on open market purchases in unlikely to achieve this. Contracts, on the other hand, can specify planting dates (and thus, indirectly delivery dates) as well as total quantities to be delivered. The contract reduces much of the uncertainty that would exist if the company simply bought crops on the open market, and gives it some control over the production process (for example, over the variety grown). There is no reason, of course, why the firm cannot use more than one method of obtaining supplies, and some firms use company farms, contract growers and open market purchases as well.

Contracting is fundamentally a way of allocating the distribution of risk between the firm and its growers. The latter assume most of the risks associated with production while the former assumes the risks of marketing the final product. In practical terms, however, considerable interdependence exists between the two parties. A supply cut-off will affect the company's final product sales just as a downturn in sales will result in a decline in the firm's demand for raw materials. How risks are allocated is specified in he contract and there is a great deal of variation

between contracts. In some, the grower and firm agree to trade a certain volume of production; in such cases, the grower bears the risk of variations in yield. In others, the firm bears this risk by accepting all production from a specified acreage. The price is usually set in advance, but in some cases the firm pays the market price at the time of delivery. A wide range of pricing formulae are also fond, some of which are mentioned by Kirsch (1976, p. 19):

> *prices calculated according to the state of the market (in between the market price and a basic prices; average prices over a period of time, pooling prices); prices taken from current market prices (fixed difference to market prices, market prices limited to a fixed latitude between maximum and minimum fixed prices; average prices taken from several quotations).*

Contracts can be thought of as a varying in 'intensity.' In some cases, the company pays the market prices at delivery time and exercises little or no control over the production process. (This is most likely to occur when the crop is a non-perishable commodity destined for processing and when market prices do not fluctuate greatly during the buying season.) At the other extreme are cases where prices are fixed at planting time and the company exercises constant supervision over the production process. In some cases, it provides all of he inputs used and either provides planting and harvesting equipment or actually carries out these operations itself. These very 'intense' contract are common in feedlots and chicken-raising operations, where the firm provides an operator with young animals and feed purchases the mature animals.

Arriving at a meaningful definition of contract farming is rather difficult, then. Roy, the leading authority on this system as it is practiced in the United States, defined it as follows (Roy, 1973, p.3):

> *those contractual arrangements between farmers and other firms, whether oral or written, specifying one or more conditions of production and/or marketing of an agricultural product.*

For the purpose of this study, Roy's definition is too broad, since it would include forward contracts, in which only price and volume are set. This book deals with contracting arrangements in which the firm and its suppliers are known to each other and in which the firm's behavior has some influence over the grower's farming practices.

The industry in which contracting is quantitatively most important is bananas, where the three firms which dominate international trade purchase about one-third of their supplies from associate producers. The latter are generally local plantation owners who employ large labor forces. United Brands and Castle & Cooke have bought bananas from associate producers for nearly a hundred years, and the proportion of exports provided by these producers has increased – accelerating since the mid-1950s in response to economic nationalism. (There appears to be little likelihood, however, that the TNCs will withdraw from production altogether.)

The banana multinationals have generally steered away from multipartite arrangements and followed the classic contract farming model. They provide growers with an integrated package of services and inputs (some produced by the TNCs affiliates) and deduct the costs from payments to the farmer at harvest time. Financing is usually the only function delegated to government. The sugar multinationals have gone farthest away from equity ventures and toward management contracts and consultancies. Each of the three major TNCs (Booker McConnell, Tate and Lyle, and Lonrho) currently has management contracts in multipartite arrangements with governments in Africa.

Contract farming is also heavily used in fruit and vegetable production, particularly in Central America. Most frequently, this entails the export of high-value items such as asparagus, cucumbers, melons, or strawberries, with the firm providing quality control, brand names, and marketing channels. Business-oriented growers, cooperatives, and individual small farers have all been involved. Total LDC employment in CF in these 'non-traditional crops' is much less than that in the traditional crops such as bananas and sugar. However, there is some evidence that it is expanding at a faster rate and that these intensive-intensive products are more promising outlets for small farmers. They therefore receive disproportionate attention in this book.

Motives For Subcontracting in Agriculture

Modern agribusiness involves a coalition of partners, both foreign and domestic, each with different motives and interests. The firm and its contract growers are always key actors but local government and foreign aid agencies frequently play important roles as well. The possible motives of each actor for participating in contract farming schemes are described below:

For *firms*, delegating production to local agents has a number of benefits beyond the technical advantages described earlier. Contracts allow the company a degree of control over the production process that is often comparable to that obtained on company plantations. On the other hand, the company does not have to invest in land, hire labor or manage large-scale farming operations which may tax the managerial capacity and technical expertise of a primarily industrial firm. Of the broader motives for contracting, avoiding conflicts over landownership and labor issues is probably more significant. Cost advantages may also be possible. For crops requiring much labor and careful attention, smallholder production may be more efficient than plantations; in cases where it is not (e.g. bananas), local plantation owners may be able to achieve lower costs than TNCs by paying lower wages. Local firms are less conspicuous than foreign ones and can often pay workers less and deal more harshly with unions.

Another possible advantage of contract farming is that local growers may find it easier than TNCs to get the local government (or indirectly, international aid agencies) to provide credit for operating capital or for the rehabilitation of plantations. If these sources provide loans at sufficiently low interest rates, the cost of operating or restoring the farms can be kept down, allowing the firm to avoid financial risks. Local purchasing also lessens he risk of expropriation by locating fewer assets within the host country. Contract farming may promote good public relations and present a progressive image by involving local producers. It can also make the companies' wages and social benefits look good in comparison with those paid by local growers.

Finally, contract farming may contribute to the formation of alliances with local businessmen who may defend the TNCs interests on certain issues. The chairman of United Fruit actually went on record in 1962 as saying that this was an important consideration (Jonas and Tobis, 1974, p.26). how effective the strategy has been in this respect is an empirical question, the answer to which depends on two things. First, where do the interests of contract growers lie? Are they similar to those of the TNC or divergent? Second, how effective have the growers been in articulating those interests? Neither of these questions has been systematically researched.

It should be noted that agribusiness TNCs are not the only firms to engage in subcontracting. Industrial firms, both domestic and foreign, who have also done so, enjoy several advantages. First, it allows the firm to draw on the specialized expertise of a subcontractor (Bauer, 1954, p. 112; Casson, 1979). Second, it permits the achievement of a minimum efficient scale of production at each stage in a process more readily than full vertical integration would allow. (If

production at Stage 1 is most efficient at 100,000 units per year and Stage 2 at 150,000, an obvious difficulty arises for a single firm). Third, managerial efficiency may be enhanced, since vertical integration may make it difficult to isolate inefficiency at one particular stage. Finally, subcontracting can allow greater flexibility in meeting market fluctuations, since it is simpler to cut back on contractual obligations than to reduce the output of a single vertically integrated firm. (It should be noted that some of these advantages are theoretical and have not been verified empirically.)

Small farmers may see contract farming as a way to overcome some of their traditional problems. These problems are numerous and only those to which CF is most relevant are discussed here. First, if they face competition from producers who have adopted new technologies but they are often reluctant to adopt these technologies themselves because of the risks and costs involved. (For example, new crop varieties often have higher variances and are more input-intensive than traditional varieties.)

Second, and related to the first, input supply is often weak in LDCs. Whether in response to lack of initiative from the private sector or as a matter of preference, governments have often taken over the supply of fertilizer and other agro-chemicals. Frequently, however, they are unable to supply them in sufficient quantities or in a timely fashion.

Third, agricultural extension is frequently weak, since neither the private nor the public sector is well positioned to provide it. The 'free rider' problem makes it hard for private firms to earn profits from extension while the difficulty of designing appropriate incentive systems for staff weakens public extension agencies.

Fourth, access to credit is difficult. Public credit is generally subsidized and must therefore be rationed; larger and more influential farmers tend to get more than their share. Private credit appears to be more effective in reaching smallholders (von Pischke et al., 1983) but only partially so.

Fifth, local markets for high value perishable goods tend to be very thin and thus highly volatile. While products like fruits and vegetables may be suitable for smallholder production, prices are unpredictable and can drop suddenly and drastically if a few farmers market a day's harvest simultaneously.

Sixth, international markets, which are deeper than local ones, are inaccessible to peasant farmers unless specific channels have been established.

Contract farming has the potential to overcome these problems. The risk reducing aspect of the contract may facilitate technology adoption. Input supply and extension may be superior to government services not necessarily because of private sector expertise, but because the firm has a direct interest in seeing that these are carried out efficiently: the results will be directly reflected in growers' yields and quality and thus in the firm's profits. Credit provision is facilitated because the firm can deduct loan repayment from crop payments and can use the crop as collateral. The existence of collateral in the form of a crop contract can also make it easier for a grower to get loans from a private or public bank. Since most agribusiness firms process perishable goods or export them to large markets. They can therefore offer growers fixed-priced contracts. Finally, transitional agribusinesses based on developed countries can often provide access to lucrative northern markets, through their expertise, brand names or oligopolistic marketing channels.

Local governments have a variety of motives for supporting contract farming schemes. These schemes avoid foreign ownership of large tracts of land, something nationalist governments in developed as well as developing countries often object to. They may also create expectations that other objectionable features of vertically integrated plantations will be avoided (for example, transfer pricing abuse and enclave effects). Whether those expectations are actually met is an empirical question. Given the complexity of many multipartite arrangements and the quasi-monopoly position which some firms hold in international marketing, it is far from certain that transfer pricing would be more transparent or less subject to abuse. Nor is it clear *a priori* that the delegation of production in itself will create greater value added or employment effects.

Outgrower schemes may also appeal to those governments which have a fundamental distrust of markets and of the spontaneous behavior of small farmers. In outgrower schemes, growers are organized and often tightly controlled by a central authority. The schemes are often linked with and facilitate resettlement schemes; in some cases, the primary objective is resettlement and the outgrower scheme is simply a way to organize the relocated population. Finally, contracting often creates lucrative opportunities for local businessmen, such as absentee landlords. Those schemes in which the firm provides most services and the grower essentially rents his land are ideally suited to absentee landlords. Such landlords frequently have close ties with government or are politicians themselves.

Foreign aid agencies also find outgrower schemes attractive. These schemes allow the agencies to channel funds in fairly larges doses to the priority area of agricultural development, often in lest developed countries in Africa (another donor priority of the 1980s). Donor preferences for private sector involvement can often be satisfied and the frequent involvement of TNCs provides some reassurance about the technical and managerial soundness of the project. Centralized control of the scheme satisfies the misgivings that donors often share with governments about unorganized small farmers. Given the interlocking of TNC, government and donor interest, it is not surprising that multipartite arrangements have becomes so popular. This interlocking also makes a careful examination of the effects on growers and communities, usually the least powerful member of the coalition, all the more important.

(Source: Small Farmers, Big Business: Contract Farming and Rural Development. Glover and Kusterer. Macmillan Press Ltd. 1990)

Annex E.1. EXPORTS: Volume of Selected Commodities, 1994-2003
In tons

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
COCONUT										
Coconut Oil	848,756	1,340,410	792,652	1,080,161	1,177,794	478,004	1,060,950	1,417,975	944,661	1,186,355
crude	*702,372*	*1,135,868*	*602,238*	*874,209*	*924,047*	*318,119*	*832,952*	*1,191,861*	*766,811*	*962,574*
refined	*146,384*	*204,542*	*190,414*	*205,952*	*253,747*	*159,885*	*227,998*	*226,114*	*177,850*	*223,781*
Desiccated	75,108	73,059	69,583	76,793	71,894	76,219	73,693	79,671	106,957	106,796
Copra Meal	574,223	756,343	474,554	570,999	543,773	280,809	530,378	753,082	385,454	507,648
Total above products	***1,498,087***	***2,169,813***	***1,336,789***	***1,727,952***	***1,793,461***	***835,031***	***1,665,021***	***2,250,728***	***1,437,072***	***1,800,800***
BANANA										
Fresh	1,551,182	1,212,879	1,253,169	1,143,336	1,147,108	1,319,624	1,599,352	1,600,556	1,684,986	1,829,384
Chips	15,476	17,771	17,405	19,094	16,955	17,813	20,639	21,674	23,653	25,998
Total above products	***1,566,658***	***1,230,650***	***1,270,574***	***1,162,430***	***1,164,063***	***1,337,437***	***1,619,991***	***1,622,230***	***1,708,639***	***1,855,382***
PINEAPPLES										
Fresh	161,426	163,363	146,040	144,735	117,317	130,187	135,389	153,149	178,639	194,595
Juice	44,553	53,046	51,021	44,057	42,130	52,617	60,403	67,869	54,399	56,731
Concentrate	38,254	40,143	38,430	36,540	42,105	31,357	41,164	45,843	38,772	52,479
Prepared/preserved	215,227	191,649	203,485	185,296	169,359	183,425	208,368	205,987	186,457	196,639
Total above products	***459,460***	***448,200***	***438,975***	***410,628***	***370,910***	***397,585***	***445,324***	***472,847***	***458,266***	***500,444***
TUNA										
Fresh	5,185	9,377	7,412	2,536	8,029	6,382	7,425	6,080	5,391	1,904
Frozen	15,248	12,767	9,660	20,219	38,126	35,641	35,634	15,993	18,230	15,856
Canned	58,034	46,738	58,374	56,164	53,120	36,857	36,458	33,909	48,070	56,854
Total above products	***78,467***	***68,882***	***75,446***	***78,918***	***99,275***	***78,881***	***79,517***	***55,981***	***71,691***	***74,614***

cont. **Annex E.1. EXPORTS: Volume of Selected Commodities, 1994-2003**

In tons

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
SHRIMPS & PRAWNS										
Fresh	742	56	98	135	135	118	321	838	2,940	4,206
Frozen	21,676	17,824	13,051	10,139	10,392	10,807	11,575	11,675	13,621	14,731
Total above products	***22,418***	***17,880***	***13,149***	***10,273***	***10,526***	***10,925***	***11,896***	***12,513***	***16,562***	***18,937***
CENTRIFUGAL SUGAR	**182,113**	**153,207**	**317,699**	**197,818**	**184,801**	**142,528**	**138,598**	**56,726**	**88,678**	**137,630**
MANGO										
Fresh	29,076	43,937	40,252	44,939	51,697	35,162	38,977	37,131	35,515	35,779
Dried	625	620	614	614	671	789	870	1,341	674	2,522
Puree	4,857	4,598	3,553	4,036	2,647	2,301	1,200	1,663	1,781	12,964
Total above products	***34,558***	***49,155***	***44,419***	***49,589***	***55,015***	***38,251***	***41,048***	***40,136***	***37,970***	***51,265***
CARRAGEENAN	**-**	**8,590**	**10,347**	**12,575**	**7,555**	**8,185**	**7,686**	**8,576**	**8,045**	**10,086**
OCTOPUS, frozen/dried/salted/brine	***7,633***	***6,729***	***6,944***	***10,416***	***8,331***	***11,127***	***31,600***	***24,237***	***28,501***	***31,895***
ABACA PULP	**11,947**	**11,506**	**13,227**	**13,458**	**14,987**	**13,071**	**15,664**	**15,142**	**16,306**	**18,934**
SEAWEEDS	**23,557**	**28,921**	**26,413**	**27,663**	**26,722**	**32,456**	**48,142**	**31,721**	**31,064**	**31,100**
CRABS										
Prepared/preserved	246	253	89	71	87	183	82	660	1,195	1,199
Other than frozen		0.245	1	0	1,099	3,084	4,138	4,815	4,192	3,674
Total above products	***246***	***253***	***90***	***71***	***1,186***	***3,266***	***4,220***	***5,475***	***5,386***	***4,873***
NATURAL RUBBER	**22,007**	**24,995**	**33,573**	**31,955**	**29,487**	**29,421**	**29,806**	**37,995**	**43,567**	**50,237**

Source: NSO

Annex E.2. EXPORTS: Value of Selected Commodities, 1994-2003
In US$'000, FOB

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
COCONUT										
Coconut Oil	475,165	826,088	570,639	673,430	705,664	342,283	464,095	417,550	352,625	504,860
crude	*389,711*	*690,625*	*426,755*	*532,648*	*544,810*	*220,089*	*350,912*	*340,854*	*279,672*	*399,436*
refined	*85,454*	*135,463*	*143,884*	*140,782*	*160,854*	*122,194*	*113,183*	*76,696*	*72,953*	*105,424*
Desiccated	70,148	68,182	84,896	88,295	72,763	89,181	73,248	63,315	94,792	95,744
Copra Meal	53,015	66,872	56,313	52,511	35,547	18,186	23,413	35,627	25,158	35,598
Total above products	***598,328***	***961,143***	***711,847***	***814,236***	***813,974***	***449,650***	***560,756***	***516,491***	***472,575***	***636,203***
BANANA										
Fresh	325,866	223,623	236,417	216,556	217,039	240,703	291,629	297,303	308,887	333,000
Chips	16,047	20,504	22,116	23,878	18,738	19,573	19,881	18,578	21,208	24,349
Total above products	***341,913***	***244,127***	***258,533***	***240,434***	***235,777***	***260,276***	***311,510***	***315,881***	***330,095***	***357,349***
PINEAPPLES										
Fresh	24,227	24,534	24,601	26,947	20,717	22,506	24,594	26,908	29,474	37,694
Juice	9,243	10,191	10,968	8,959	7,384	9,318	12,205	13,774	11,322	11,964
Concentrate	21,516	24,280	27,261	27,610	32,882	22,782	28,248	29,673	25,753	34,846
Prepared/preserved	90,183	80,781	93,152	85,789	79,245	82,406	90,702	90,843	81,979	84,279
Total above products	***145,169***	***139,786***	***155,981***	***149,304***	***140,229***	***137,012***	***155,749***	***161,199***	***148,528***	***168,782***
TUNA										
Fresh	13,336	30,243	23,463	10,029	31,983	29,363	34,804	27,828	25,326	7,172
Frozen	17,666	18,529	19,637	25,610	40,991	28,842	27,092	19,647	25,321	17,112
Canned	138,802	111,118	130,832	134,332	130,121	78,113	64,493	68,803	93,251	111,752
Total above products	***169,804***	***159,890***	***173,932***	***169,972***	***203,095***	***136,319***	***126,389***	***116,278***	***143,898***	***136,036***

cont. **Annex E.2. EXPORTS: Value of Selected Commodities, 1994-2003**
In US$'000, FOB

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
SHRIMPS & PRAWNS										
Fresh or chilled	5,412	366	778	934	843	666	2,291	5,812	19,730	24,986
Frozen	240,904	214,807	149,180	125,493	128,499	125,683	141,247	117,740	119,127	99,584
Total above products	***246,316***	***215,173***	***149,959***	***126,427***	***129,342***	***126,349***	***143,538***	***123,552***	***138,857***	***124,570***
CENTRIFUGAL SUGAR	**60,618**	**65,880**	**136,203**	**82,708**	**79,995**	**62,623**	**51,714**	**22,757**	**35,786**	**58,333**
MANGO										
Fresh	29,533	43,234	39,761	40,477	41,739	32,340	34,331	27,979	27,275	31,013
Dried	4,160	4,449	4,551	4,528	4,247	4,502	5,477	8,008	3,866	13,713
Puree	5,212	5,061	4,208	4,681	2,740	2,471	1,242	1,912	1,835	11,900
Total above products	***38,906***	***52,744***	***48,520***	***49,686***	***48,726***	***39,313***	***41,050***	***37,899***	***32,976***	***56,626***
CARRAGEENAN	-	43,446	51,995	61,306	33,512	41,543	38,354	38,239	38,383	47,165
OCTOPUS, frozen/dried/salted/brine	**19,736**	**21,958**	**22,729**	**39,654**	**24,821**	**31,600**	**24,237**	**28,501**	**31,895**	**36,386**
ABACA PULP	**30,362**	**32,077**	**38,839**	**37,894**	**35,962**	**31,627**	**35,949**	**29,552**	**31,367**	**36,221**
SEAWEEDS	**21,983**	**39,106**	**41,993**	**33,393**	**30,677**	**44,107**	**46,410**	**32,950**	**33,860**	**33,134**
CRABS										
Prepared/preserved	2,896	3,735	1,126	859	1,396	1,135	1,272	10,399	16,537	17,516
Other than frozen	-	1	12	0	4,397	11,743	16,759	19,096	16,174	13,954
Total above products	***2,896***	***3,736***	***1,139***	***859***	***5,793***	***12,878***	***18,030***	***29,496***	***32,711***	***31,471***
NATURAL RUBBER	**13,333**	**27,762**	**33,816**	**25,137**	**14,248**	**11,756**	**14,290**	**13,137**	**17,405**	**29,575**

Source: NSO

Annex E.3. IMPORTS: Volume and Value of Selected Commodities, 1994-2003

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Volume in tons										
RICE	163,778	263,248	862,258	722,397	2,170,834	836,378	638,723	808,235	1,196,094	834,677
CORN	893	208,024	402,345	300,732	348,980	145,150	403,035	127,969	236,364	48,890
COFFEE	173	7,192	277	4,825	13,135	6,362	15,202	13,337	28,666	30,199
Value in US$'000, CIF										
RICE	69,341	82,707	308,881	230,027	646,609	239,943	135,508	153,130	237,490	165,765
CORN	548	38,187	99,697	58,189	55,784	31,772	54,063	15,509	36,804	5,579
COFFEE	3,656	89,977	2,454	9,202	20,780	10,911	16,232	18,163	27,505	36,346

Source: NSO

Annex F

COMPETITIVE ADVANTAGES AND DISADVANTAGES OF SELECTED ASIAN COUNTRIES, 2004

NATIONAL COMPETITIVENESS BALANCE SHEET, PHILIPPINES

NOTABLE COMPETITIVE ADVANTAGES

Growth Competitiveness Index	Rank/104
Macroeconomic Environment	
Real effective exchange rate, 2003	16
Interest rate spread, 2003	38
National savings rate, 2003	43
Technology	
FDI and technology transfer	34
Quality of competition in the ISP sector	36
Laws relating to ICT	44
Tertiary enrollment	45
Prevalence of foreign technology licensing	46
Company spending on research and development	49
Government prioritization of ICT	50

Business Competitiveness Index	Rank/93
Sophistication of Company Operations and Strategy Rank	
Extent of staff training	35
Willingness to delegate authority	36
Value chain presence	37
Quality of the National Business Enviroment Rank	
Quality of management schools	30
Intensity of local competition	31
Efficacy of corporate boards	40

Other indicators	Rank/104
Private sector employment of women	6
Wage equality of women in the workplace	7
Maternity laws' impact on hiring women	12
Company promotion of volunteerism	28
Tax burden	31
Freedom of the press	37
Charitable causes involvement	37
Availability of mobile or cellular telephones	39
Strength of auditing and accounting standards	39
Importance of corporate social responsibility	49
Extent and effect of taxation	50
Prioritization of energy efficiency	50

NOTABLE COMPETITIVE DISADVANTAGES

Growth Competitiveness Index	Rank/104
Macroeconomic Environment	
Recession expectations	90
Wastefulness of government spending	90
Government surplus/deficit, 2003	75
Access to credit	63
Country credit rating, 2004	59
Inflation, 2003	51
Public Institutions	
Irregular payments in exports and imports	102
Irregular payments in tax collection	101
Organized crime	94
Favoritism in decisions of government officials	90
Irregular payments in public utilities	81
Property rights	74
Judicial independence	74
Technology	
Telephone lines, 2003	84
Internet hosts, 2003	78
Technological readiness	77
Personal computers, 2003	71
University/industry research collaboration	68
Internet users, 2003	67
Cellular telephones, 2003	66
Government success in ICT promotion	60
Utility patents, 2003	59
Firm-level technology absorption	58
Internet access in schools	57

Business Competitiveness Index	Rank/93
Sophistication of Company Operations	
Capacity for innovation	74
Production process sophistication	72
Control of international distribution	67
Quality of the National Business	
Hidden trade barrier liberalization	89
Reliability of police services	88
Business costs of corruption	86

Other indicators	Rank/104
Policy consequences of legal political donations	104
Irregular payments in government policymaking	103
Irregular payments in judicial decisions	103
Prevalence of illegal political donations	103
Business costs of terrorism	102

Source: World Economic Forum. 2004. The Global Competitiveness Report, 2004-2005.

NATIONAL COMPETITIVENESS BALANCE SHEET, INDONESIA

NOTABLE COMPETITIVE ADVANTAGES

Growth Competitiveness Index	Rank/104
Macroeconomic Environment	
Recession expectations	25
Wastefulness of government spending	25
Government surplus/deficit, 2003	39
Public Institutions	
Favoritism in decisions of government officials	24
Technology	
University/industry research collaboration	27
Company spending on research and development	28
Government success in ICT promotion	33
Laws relating to ICT	37
Quality of competition in the ISP sector	44
Internet access in schools	45

Business Competitiveness Index	Rank/93
Sophistication of Company Operations and Strategy Rank	
Nature of competitive advantage	24
Capacity for innovation	27
Company spending on research and development	27
Quality of the National Business Enviroment Rank	
Centralization of economic policymaking	13
State of cluster development	18
Venture capital availability	19

Other indicators	Rank/104
Tax burden	7
Extent of market dominance	7
Burden of central government regulation	15
Importance of environment in business planning	17
Business impact of foreign trade barriers	20
Subsidies and tax credits for firm-level research and development	22
Public trust of politicians	22
Company promotion and volunteerism	22
Prevalence of corporate environmental reporting	23
Agricultural policy costs	25
Regional disparities in quality of business environme	26
Organized efforts to improve competitiveness	27
Extent and effect of taxation	27
Efficiency of the tax system	27
Burden of local government regulation	29

NOTABLE COMPETITIVE DISADVANTAGES

Growth Competitiveness Index	Rank/104
Macroeconomic Environment	
Real effective exchange rate, 2003	90
Inflation, 2003	77
Country credit rating, 2004	72
National savings rate, 2003	65
Access to credit	64
Interest rate spread, 2003	60
Public Institutions	
Organized crime	81
Irregular payments in tax collection	76
Irregular payments in exports and imports	75
Irregular payments in public utilities	70
Property rights	67
Judicial independence	58
Technology	
Telephone lines, 2003	86
Firml-level technology absorption	85
Personal computers, 2003	83
FDI and technology transfer	82
Cellular telephones, 2003	79
Internet hosts, 2003	79
Utility patents, 2003	74
Internet users, 2003	74
Tertiary enrollment	74
Prevalence of foreign technology licensing	71
Government prioritization of ICT	65
Technological readiness	57

Business Competitiveness Index	Rank/93
Sophistication of Company Operations	
Prevalence of foreign technology licensing	65
Degree of customer orientation	61
Extent of regional sales	55
Quality of the National Business	
Telephone/fax infrastructure quality	77
Extent of bureaucratic red tape	77
Foreign ownership restrictions	77

Other indicators	Rank/104
Availability of mobile or cellular telephones	98
Present business impact of tuberculosis	98
Maternity laws' impact on hiring women	96
Wage equality of women in the workplace	96
Present business impact of HIV/AIDS	92
Freedom of the press	92
Medium term business impact of malaria	91
Business costs of terrorism	88
Business impact of rules on FDI	86
Flexibility of wage determination	84
Soundness of banks	83
Private sector employment of women	81

Source: World Economic Forum. 2004. The Global Competitiveness Report, 2004-2005.

NATIONAL COMPETITIVENESS BALANCE SHEET, MALAYSIA

NOTABLE COMPETITIVE ADVANTAGES

Growth Competitiveness Index	Rank/104
Macroeconomic Environment	
Recession expectations	3
National savings rate, 2003	8
Wastefulness of government spending	11
Inflation, 2003	15
Real effective exchange rate, 2003	23
Interest rate spread, 2003	23
Public Institutions	
Favoritism in decisions of government officials	30
Technology	
Government success in ICT promotion	8
FDI and technology transfer	11
University/industry research collaboration	15
Laws relating to ICT	16
Prevalence of foreign technology licensing	16
Company spending on research and development	23
Government prioritization of ICT	23
Internet users, 2003	24
Technological readiness	28
Internet access in schools	28

Business Competitiveness Index	Rank/93
Sophistication of Company Operations and Strategy Rank	
Prevalence of foreign technology licensing	14
Company spending on research and development	22
Extent of branding	23
Quality of the National Business Enviroment Rank	
Government procurement of advanced technology products	4
Prevalence of mergers and acquisitions	8
Intensity of local competition	11

Other indicators	Rank/104
Organized efforts to improve competitiveness	2
Agricultural policy costs	5
Company promotion of volunteerism	5
Subsidies and tax credits for firm-level research and development	6
Effectiveness of lawmaking bodies	6
Government effectiveness in reducing poverty and inequality	8
Burden of central government regulation	10
Efficiency of the tax system	10
Pay and productivity	10
Extent and effect of taxation	11
Business impact of foreign trade barriers	12
Burden of local government regulation	12
Public trust of politicians	16
Business impact of domestic trade barriers	17
Brain drain	18

NOTABLE COMPETITIVE DISADVANTAGES

Growth Competitiveness Index	Rank/104
Macroeconomic Environment	
Government surplus/deficit, 2003	76
Country credit rating, 2004	36
Access to credit	35
Public Institutions	
Irregular payments in public utilities	56
Irregular payments in exports and imports	47
Organized crime	41
Irregular payments in tax collection	39
Property rights	32
Judicial independence	31
Technology	
Telephone lines, 2003	59
Internet hosts, 2003	51
Tertiary enrollment	50
Cellular telephones, 2003	42
Firm-level technology absorption	41
Personal computers, 2003	38
Quality of competition in the ISP sector	34
Utility patents, 2003	34

Business Competitiveness Index	Rank/93
Sophistication of Company Operations	
Extent of regional sales	45
Extent of incentive compensation	41
Reliance on professional management	34
Quality of the National Business	
Extent of bureaucratic red tape	70
Telephone/fax infrastructure quality	59
Hidden trade liberalization	48

Other indicators	Rank/104
Freedom of the press	93
Availability of mobile or cellular telephones	83
Present business impact of malaria	81
Present business impact of HIV/AIDS	74
Business costs of terrorism	73
Present business impact of tuberculosis	71
Irregular payments in loan applications	54
Soundness of banks	50
Tax burden	48
Flexibility of wage determination	46
Postal efficiency	42
Ease of hiring foreign labor	40

Source: World Economic Forum. 2004. The Global Competitiveness Report, 2004-2005.

NATIONAL COMPETITIVENESS BALANCE SHEET, THAILAND

NOTABLE COMPETITIVE ADVANTAGES

Growth Competitiveness Index	Rank/104
Macroeconomic Environment	
Recession expectations	4
National savings rate, 2003	11
Government surplus/deficit, 2003	14
Wastefulness of government spending	16
Access to credit	25
Inflation, 2003	28
Technology	
FDI and technology transfer	8
Prevalence of foreign technology licensing	12
Government success in ICT promotion	12
Government prioritization of ICT	16
Firm-level technology absorption	26
University/industry research collaboration	31

Business Competitiveness Index	Rank/93
Sophistication of Company Operations and Strategy Rank	
Prevalence of foreign technology licensing	11
Extent of regional sales	25
Degree of customer orientation	27
Quality of the National Business Enviroment Rank	
Extent of locally based competitors	8
State of cluster development	20
Local equity market access	21

Other indicators	Rank/104
Wage equality of women in the workplace	3
Organized efforts to improve competitiveness	4
Private sector employment of women	4
Maternity laws' impact on hiring women	11
Agricultural policy costs	14
Tax burden	15
Pay and productivity	17
Brain drain	21
Burden of central government regulation	22
Hiring and firing practices	23
Prevalence of environmental marketing	23
Extent and effect of taxation	25
Efficiency of the tax system	25
Prevalence of environmental management systems	25
Business impact of domestic trade barriers	27

NOTABLE COMPETITIVE DISADVANTAGES

Growth Competitiveness Index	Rank/104
Macroeconomic Environment	
Real effective exchange rate, 2003	47
Interest rate spread, 2003	43
Country credit rating, 2004	42
Public Institutions	
Irregular payments in exports and imports	72
Organized crime	58
Favoritism in decisions of government officials	50
Irregular payments in tax collection	47
Irregular payments in public utilities	45
Judicial independence	44
Property rights	41
Technology	
Telephone lines, 2003	72
Internet hosts, 2003	64
Personal computers, 2003	64
Cellular telephones, 2003	59
Internet users, 2003	54
Utility patents, 2003	52
Laws relating to ICT	45
Company spending on research and development	43
Internet access in schools	42
Tertiary enrollment	41
Technological readiness	39
Quality of competition in the ISP sector	35

Business Competitiveness Index	Rank/93
Sophistication of Company Operations	
Production process sophistication	55
Reliance on professional management	54
Capacity for innovation	50
Quality of the National Business	
Extent of bureaucratic red tape	90
Foreign ownership restrictions	83
Availability of scientists and engineers	65

Other indicators	Rank/104
Pervasiveness of money laundering through non-bank channels	87
Ease of hiring foreign labor	86
Business costs of terrorism	85
Present business impact of HIV/AIDS	85
Freedom of the press	81
Present business impact of tuberculosis	80
Business impact of rules on FDI	73
Policy consequences of legal political donations	73
Flexibility of wage determination	72
Soundness of banks	71
Present business impact of malaria	71
Extent of market dominance	66

Source: World Economic Forum. 2004. The Global Competitiveness Report, 2004-2005.

NATIONAL COMPETITIVENESS BALANCE SHEET, VIETNAM

NOTABLE COMPETITIVE ADVANTAGES

Growth Competitiveness Index	Rank/104
Macroeconomic Environment	
National savings rate, 2003	14
Interest rate spread, 2003	15
Recession expectations	34
Real effective exchange rate, 2003	38
Government surplus/deficit, 2003	39
Access to credit	41
Technology	
Government success in ICT promotion	28
Government prioritization of ICT	33
Firm-level technology absorption	38

Business Competitiveness Index	Rank/93
Sophistication of Company Operations and Strategy Rank	
Extent of incentive compensation	45
Capacity for innovation	46
Willingness to delegate authority	49
Quality of the National Business Enviroment Rank	
Government procurement of advanced technology products	32
Cooperation in labor-employer relations	33
Administrative burden startups	35

Other indicators	Rank/104
Maternity laws' impact on hiring women	7
Tax burden	8
Prevalence of illegal political donations	9
Company promotion of volunteerism	12
Childcare availability	13
Policy consequences of legal political donations	15
Government effectiveness in reducing poverty and inequality	21
Agricultural policy costs	26
Wage equality of women in the workplace	26
Pay and productivity	32
Ease of hiring foreign labor	34
Hiring and firing practices	35
Compliance with international agreements	35
Charitable causes involvement	38
Postal efficiency	39

NOTABLE COMPETITIVE DISADVANTAGES

Growth Competitiveness Index	Rank/104
Macroeconomic Environment	
Country credit rating, 2004	68
Wastefulness of government spending	68
Inflation, 2003	52
Public Institutions	
Irregular payments in exports and imports	100
Irregular payments in tax collection	97
Irregular payments in public utilities	91
Property rights	66
Organized crime	61
Judicial independence	59
Favoritism in decisions of government officials	55
Technology	
Prevalence of foreign technology licensing	99
Internet hosts, 2003	99
Quality of competition in the ISP sector	96
Laws relating to ICT	94
Cellular telephones, 2003	89
Personal computers, 2003	84
University/industry research collaboration	82
Technological readiness	81
Tertiary enrollment	81
FDI and technology transfer	79
Utility patents, 2003	79
Telephone lines, 2003	79
Company spending on research and development	71
Internet users, 2003	69
Internet access in schools	55

Business Competitiveness Index	Rank/93
Sophistication of Company Operations	
Prevalence of foreign technology licensing	89
Control of international distribution	87
Extent of marketing	85
Quality of the National Business	
Hidden trade liberalization	91
Quality of management schools	91
Stringency of environmental regulations	89

Other indicators	Rank/104
Irregular payments in loan applications	102
Strength of auditing and accounting standards	100
Irregular payments in public contracts	100
Openness of customs regime	99
Business costs of irregular payments	96
Political context of environmental gains	95
Efficiency of customs procedures	91
Clarity and stability of regulations	91
Regional disparities in quality of business environment	90
Business impact of customs procedures	88
Irregular payments in judicial decisions	88
Prioritization of energy efficiency	88
Business impact of domestic trade barriers	86
Medium term business impact of tuberculosis	83

Source: World Economic Forum. 2004. The Global Competitiveness Report, 2004-2005.

NATIONAL COMPETITIVENESS BALANCE SHEET, CHINA

NOTABLE COMPETITIVE ADVANTAGES

Growth Competitiveness Index	Rank/104
Macroeconomic Environment	
National savings rate, 2003	1
Recession expectations	14
Inflation, 2003	17
Interest rate spread, 2003	26
Wastefulness of government spending	30
Real effective exchange rate, 2003	35
Country credit rating, 2004	35
Government surplus/deficit, 2003	44
Public Institutions	
Favoritism in decisions of government officials	38
Technology	
University/industry research collaboration	22
Government success in ICT promotion	23
Company spending on research and development	27
Firm-level technology absorption	34
Government prioritization of ICT	43

Business Competitiveness Index	Rank/93
Sophistication of Company Operations and Strategy Rank	
Company spending on research and development	26
Capacity for innovation	30
Control of international distribution	33
Quality of the National Business Enviroment Rank	
Local availability of process machinery	6
Local availability of components and parts	6
Government procurement of advanced technology products	10

Other indicators	Rank/104
Prevalence of environmental marketing	13
Prevalence of illegal political donations	14
Pay and productivity	15
Company promotion of volunteerism	16
Compliance with international agreements	16
Burden of central government regulation	18
Public trust of politicians	18
Organized efforts to improve competitiveness	19
Policy consequences of legal political donations	20
Extent of market dominance	20
Importance of environment in business planning	23
Subsidies and tax credits for firm-level research and development	24
Childcare availability	24
Effectiveness of lawmaking bodies	24
Prioritization of energy efficiency	24

NOTABLE COMPETITIVE DISADVANTAGES

Growth Competitiveness Index	Rank/104
Macroeconomic Environment	
Access to credit	80
Public Institutions	
Organized crime	67
Irregular payments in public utilities	63
Property rights	62
Irregular payments in tax collection	62
Judicial independence	61
Irregular payments in exports and imports	64
Technology	
Internet hosts, 2003	86
Tertiary enrollment	75
Personal computers, 2003	72
Cellular telephones, 2003	63
Internet users, 2003	63
Utility patents, 2003	62
Technological readiness	60
Prevalence of foreign technology licensing	59
Telephone lines, 2003	56
FDI and technology transfer	52
Laws relating to ICT	51
Internet access in schools	49
Quality of competition in the ISP sector	48

Business Competitiveness Index	Rank/93
Sophistication of Company Operations	
Extent of marketing	60
Extent of incentive compensation	58
Production process sophistication	57
Quality of the National Business	
Extent of bureaucratic red tape	86
Regulation of securities exchanges	83
Protection of minority shareholders' interests	77

Other indicators	Rank/104
Freedom of the press	101
Soundness of banks	97
Business costs of irregular payments	94
Charitable causes involvement	90
Availability of mobile or cellular telephones	89
Medium term business impact of malaria	84
Maternity laws' impact on hiring women	83
Medium term business impact of tuberculosis	78
Irregular payments in loan applications	77
Tax burden	75
Private sector employment of women	71
Present business impact of HIV/AIDS	70
Strengthe of auditing and accounting standards	66

Source: World Economic Forum. 2004. The Global Competitiveness Report, 2004-2005.

NATIONAL COMPETITIVENESS BALANCE SHEET, SINGAPORE

NOTABLE COMPETITIVE ADVANTAGES

Growth Competitiveness Index	Rank/104
Macroeconomic Environment	
Wastefulness of government spending	1
National savings rate, 2003	3
Government surplus/deficit, 2003	7
Inflation, 2003	9
Public Institutions	
Organized crime	4
Favoritism in decisions of government officials	7
Irregular payments in exports and imports	8
Irregular payments in public utilities	9
Technology	
Government prioritization of ICT	1
Government success in ICT promotion	1
Laws relating to ICT	1
Personal computers, 2003	3
University/industry research collaboration	5
Internet users, 2003	5
Internet access in schools	6
Technological readiness	8
Firm-level technology absorption	9
Company spending on research and development	9
Utility patents, 2003	10
Internet hosts, 2003	10

Business Competitiveness Index	Rank/93
Sophistication of Company Operations and Strategy Rank	
Prevalence of foreign technology licensing	1
Company spending on research and development	9
Production process sophistication	11
Quality of the National Business Enviroment Rank	
Government procurement of advanced technology products	1
Cooperation in labor-employer relations	1
Port infrastructure quality	1

Other indicators	Rank/104
Organized efforts to improve competitiveness	1
Subsidies and tax credits for firm-level research and development	1
Burden of central government regulation	1
Transparency of government policymaking	1
Effectiveness of law-making bodies	1
Informal sector	1
Public trust of politicians	1
Business impact of customs procedures	2
Efficiency of customs procedures	2
Openness of customs regime	2
Agricultural policy costs	2
Burden of local government regulation	2
Political context of environmental gains	2
Subsidies for energy or materials	2
Business impact of domestic trade barriers	3

NOTABLE COMPETITIVE DISADVANTAGES

Growth Competitiveness Index	Rank/104
Macroeconomic Environment	
Interest rate spread, 2003	45
Real effective exchange rate, 2003	43
Access to credit	22
Recession expectations	19
Country credit rating, 2004	18
Public Institutions	
Judicial independence	24
Property rights	12
Irregular payments in tax collection	11
Technology	
Tertiary enrollment	32
Telephone lines, 2003	27
Quality of competition in the ISP sector	19
Cellular telephones, 2003	16

Business Competitiveness Index	Rank/93
Sophistication of Company Operations	
Extent of marketing	25
Control of international distribution	24
Extent of regional sales	21
Quality of the National Business	
Centralization of economic policymaking	78
Local availability of process machinery	39
Extent of locally based competitors	38

Other indicators	Rank/104
Freedom of the press	98
Business costs of terrorism	76
Present business impact of malaria	54
Business impact of foreign trade barriers	48
Present business impact of tuberculosis	44
Present business impact of HIV/AIDS	35
Prevalence of environmental marketing	22
Soundness of banks	19
Importance of environmental management for companies	19
Availability of mobile or cellular phones	17
Prevalence of corporate environmental reporting	17
Prevalence of socially responsible investing	16

Source: World Economic Forum. 2004. The Global Competitiveness Report, 2004-2005.