Closing the Productivity Gap in Agribusiness[1]

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Rationale and Objectives

Agribusiness is the sum total of all activities involved in the manufacture and distribution of farm supplies, production operations on the farm, and the storage, processing and distribution of farm commodities and the products made from them (Davis and Goldberg, 1957). **In effect, agribusiness is more than agriculture. It spans the entire supply chain from *seed to shelf*, or from *pasture to plate*.**

The understanding of the term agribusiness in the Philippines, however, varies. To groups in the left, it covers the large integrated businesses such as those in banana and pineapple that occupy large tracts of lands. To the business sector, agribusiness means businesses related to agriculture that provides significant profits if managed well, regardless of land size. This paper will follow the latter definition. Related to this, the Medium Term Philippine Development Plan (MTPDP) 2004-2010 views *agribusiness lands* as those lands that have broken out of "subsistence agriculture by increasing and diversifying the marketable surplus of the farm."

Box 1. Agribusiness Strategy

What do I mean by agribusiness strategy? It is applying science and technology to farming and market solutions to agriculture. It involves organizing and managing the supply chain from production (farm machinery, seeds, breeds, technology, credit) to post-harvest (dryers, silos, slaughterhouses, refrigerated vans) to manufacture (flour and feed mills, corn flake factories) to transport (ships, ports, trucks and RO-RO) and, finally, marketing to deliver the goods to end-users or customers.

Agribusiness strategy is the opposite of subsistence and marginal farming prevalent in Philippine agriculture and the principal cause of poverty and hunger in Mindanao.

- *Malonzo, Ibarra A. "Agribusiness can wipe out rural poverty," Philippine Daily Inquirer, October 17, 2004 (Mr. Malonzo is President of Kasanyangan Mindanao Foundation, a Zamboanga City-based group advocating agrarian reform and rural development).*

This chapter will:

1. provide an analysis of Philippine agriculture performance relative to comparator countries;
2. present commodity specific data across selected countries; and
3. discuss the factors that influence agribusiness investments.

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The set of recommendations is expected to lead to a sound investment environment for Filipino producers to make the most of the globalization of agriculture markets, mainly by strengthening linkages with agriculture producers and distribution chains as well as other networking possibilities.

Performance Weaknesses, Challenges and Problems Plaguing Philippine Agribusiness

This chapter will provide an analysis of why Philippine agribusiness has not responded to the challenge of capitalizing on its natural and geographic advantages in expanding agribusiness exports but appears to have performed below peer countries in Asia.

Agriculture performance

Agriculture accounts for nearly 20 percent of the country's economic output. It directly provides employment to 11.2 million people, or 37 percent of the country's employment. Within the agribusiness context, agriculture directly and indirectly has a dominant share of output and employment in the Philippines. If one considers agricultural inputs, agro-processing and product distribution, about 40 percent of GDP and two-thirds of jobs in the economy arise from agriculture (Tolentino, et al, 2001). (Note: agriculture includes crops, livestock, poultry, fishery and forestry)

In the 1960s and 1970s, Philippine agriculture grew by at least 4 percent annually, at par or better than its neighbors in Asia. The era witnessed heavy investments in agriculture that more than doubled irrigated areas from 541,000 hectares in 1964 to 1.23 million hectares in 1980 (World Bank, 1987). The late 1960s and 1970s also saw the spread of high yielding rice varieties. By 1980s and 1990s through 2002, growth declined sharply to 1 percent and 2 percent annually, respectively, perhaps one of the worst in the region. As a result, some 20 million people in the rural areas live in poverty today and, consequently, rural markets are weak as the poor have little purchasing power for consumer goods.

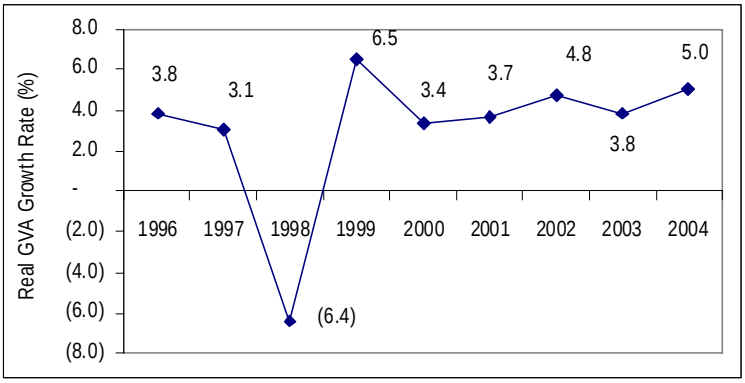
Table 1. Comparative Agriculture Growth Rate of the Philippines versus Selected Asian Countries, 1980-2002

Country	**1960-1970**	**1970-1980**	**1980-1990**	**1990-2002**
Philippines	4.3	4.0	1.0	2.0
Malaysia	Na	5.0	3.4	0.3
Thailand	5.6	4.4	3.9	1.5
Indonesia	2.7	4.1	3.6	1.9
Vietnam	Na	na	2.8	4.2
China	1.6 (a)	2.6	5.9	3.9
EAST ASIA AND PACIFIC	**Na**	**3.1**	**4.6**	**3.1**
WORLD	**Na**	**na**	**2.6**	**1.8**

(a) 1961-1970
Source: World Bank - World Development Report, various issues.

During the last ten years (1995-2004), Philippine agriculture grew by 3.1 percent per year. Output slid by a record 6.4 percent in 1998 due to the El Niño weather phenomenon. A sharp recovery to 6.5 percent was experienced in 1999 but this was mainly due to the abnormally low base the previous year. From 2000-2004, growth averaged over 4 percent yearly, a notable record by any standard.

Figure 1. Real Growth Rate of Gross Value Added in Agriculture, Fishery and Forestry, 1995-2004



Source of basic data: National Statistical Coordination Board

The growth profile in the last decade showed that crops contributed nearly 40 percent of growth. Meanwhile, the livestock and poultry subsectors contributed 30 percent while fisheries (mainly aquaculture) accounted for 29 percent. Forestry, as expected, headed south. There are interesting aspects to this development. First is that the livestock, poultry and fishery subsectors, which altogether accounted for 60 percent of growth, are private sector and market driven. Second, they are not land-extensive operations compared to crops.

Table 2. Contributions to Growth in Agriculture, 1995-2004 (at constant prices)

Subsector	1995	2004	Absolute change	Contributions to Growth	
				w/ forestry	w/o forestry
Agriculture Industry	171,317	224,552	53,235	100.6	100.0
Agriculture	137,464	175,488	38,024	71.8	71.4
Crops	92,937	113,854	20,917	39.5	39.3
Livestock	19,839	27,273	7,434	14.0	14.0
Poultry	16,056	24,978	8,922	16.9	16.8
Agri. Act. & Services	8,632	9,383	751	1.4	1.4
Fishery	33,853	49,064	15,211	28.7	28.6
Forestry	1,527	1,221	(306)	(0.6)	
Agri., Fishery and Forestry	172,844	225,773	52,929	100.0	

Source: NSCB

Productivity and Investment Climate

Labor productivity

The growth in agricultural labor productivity fell sharply in 1981-1990 but picked up somewhat in 1991-2002, although still in a much less degree than that in the 1962-1980 period. The expansion was way below other Asian countries in the 1980s, but the gap with Indonesia and Thailand was less in the 1990s. This was partly because the Philippines picked up, partly because the others slowed down.

The growth can be decomposed into two: (a) growth in value added per hectare (land productivity) and (b) growth in land available per worker. Growth in land area in the Philippines in 1991-2002 was significantly higher than in other Asian countries, while land per worker was declining less than in other countries. In this sense, agricultural growth in the Philippines seems to be relying much more on the "extensive" model of expanding acreage. However, growth in land productivity in the Philippines (about 1 percent a year in 1991-02) is still significantly below that in other economies.

Table 3. Philippines – Agriculture – Annual Average Growth (percent) - 1962-2002

	Philippines			China		Indonesia		Thailand	
	1962-80	1981-90	1991-02	1981-90	1991-02	1981-90	1991-02	1981-90	1991-02
Agriculture real value added	3.9	1.0	2.0	5.9	3.9	3.6	1.9	3.9	1.4
Agriculture real value added per worker	1.8	-0.4	0.8	3.9	3.6	1.1	0.9	2.5	1.2
Agriculture Value added per hectare	2.2	0.5	1.0	3.6	3.5	1.4	1.5	2.6	2.1
Agricultural Land per worker	-0.4	-0.8	-0.2	0.3	0.1	-0.3	-0.6	-0.1	-0.9
Memo:									
Agricultural land area	1.6	0.5	1.0	2.2	0.4	2.1	0.5	1.3	-0.7
Labor force in agriculture	2.0	1.3	1.2	1.9	0.3	2.4	1.1	1.4	0.2

Source: World Bank World Development Indicators. FAOSTAT. Trend growth calculated by linear regression.

Meanwhile, in absolute terms, the Philippines' labor productivity at US$1,458 in 2000-2002 was relatively higher than most of its Asian neighbors, except Malaysia, which is nearly five times more. Growth, however, was dismal at only 6 percent in the last twenty years, possibly one of the lowest growth rates in Asia. China's productivity doubled during the past two decades while Malaysia grew by almost 76 percent.

Table 4. Comparative Labor Productivity, Selected Asian Countries, 1979-81 and 2000-02
(Agricultural value added per worker, 1995 US$)

Country	1979-81	2000-02	Absolute Growth
China	161	338	109.9
Indonesia	604	748	23.8
Malaysia	3,939	6,912	75.5
Philippines	1,381	1,458	5.6
Thailand	616	863	40.1
Viet Nam	-	256	-

Source: World Bank - World Development Report, 2004

Total Factor (Multi-factor) Productivity

The Philippines lagged behind to its neighbors in East Asia in total factor (or multi-factor) productivity. It showed, at best, stagnant productivity growth in almost four decades, mainly as a result of the very dismal productivity of physical capital, not of education. This can be attributed to the growth and quality of investment and perhaps the quality of maintenance of capital.

Table 5. 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) as cited by Macaranas, 2004.

Crop yield

A comparison of yield levels for selected crops in Asian countries showed mixed performance for the Philippines. The strong performers are pineapples, mangoes, sugarcane and bananas (especially if the Cavendish banana farms in Mindanao are considered). On the other hand, the laggards include the dominant crops: maize, rice, coconut and to some extent, coffee.

The Philippines can be regarded as the global benchmark in pineapples. It posted an average yield of 36 ton/ha[3] in 2004, with mean a growth of 7.8 percent annually from 1995-2004. The country is also in the upper tier of farm yields for mango at 6.4 ton/ha. Average growth, however, has been relatively flat in the last ten years.[4] For sugarcane, the Philippines is also in the upper league at nearly 74 ton/ha, with average growth of 1.9 percent yearly during the past decade.[5] For banana, the average productivity of about 14 ton/ha in 2004 masks the true ranking of the country. Considering the dominance of Cavendish farms especially in Mindanao where yield levels can reach 50-70 ton/ha, the Philippines can, in fact, be regarded as among the best in the world.

For rice, the country's yield of 3.6 ton/ha in 2004 was only about 60 percent of China's, 75 percent of Viet Nam's and about 80 percent of Indonesia's. It fared relatively better than Malaysia and Thailand though. Growth in yield, however, has been relatively higher at 2.7 percent annually from 1995-2004, compared to its peers. The

[3] The average is marked down by the low yield of smallholders. Del Monte and Dole farms are doing at least twice the average for plant and ratoon crops. Del Monte is cited by experts as the benchmark integrated pineapple operation in the world.
[4] This could have been weighed down by the low yield of immature trees going into harvests.
[5] The advent of the private-funded Philippine Sugar Research Institute in 1997 has had dramatic effect on cane yields and sugar recovery in the past five years.

yield differences may be explained by such factors as use of high-yielding seeds, irrigation and fertilization.

For maize, the country posted the lowest yield at only 2 ton/ha in 2004. It is only a little over 50 percent of Thailand and 40 percent of China. According to an expert, the yield variation can be explained by the intensity of hybrid use. In the Philippines, the hybrid intensity is less than 15 percent compared to 60 percent for Thailand and over 90 percent for China (Dy quoting private sector estimates, 2000). Productivity, however, grew by 2.9 percent per year, even better than China, Thailand and Vietnam given its low base.

For coconuts, the country's yield of 4.4 ton nuts/ha lagged behind China, Indonesia and Viet Nam and, perhaps, only a third of benchmark farm yield. This is mainly due to the senility of trees, lack of fertilization and tree stress. In the last decade, Indonesia surpassed the Philippines as the world's largest producer. For coffee, the average yield of 0.8 ton/ha[6] was only about half of Vietnam's 1.5 ton/ha. The farms in Viet Nam are reportedly hand-irrigated.

Table 6. Comparative Productivity Trends of Crops, Selected Asian Countries, 2004

COUNTRY	*Rice, Paddy*		*Maize*		*Coconuts*		*Sugar Cane*	
	Yield	**AAGR %**	**Yield**	**AAGR %**	**Yield**	**AAGR %**	**Yield**	**AAGR %**
China	6.3	0.6	5.2	1.0	10.2	2.7	70.8	2.8
Indonesia	4.5	0.5	3.4	4.7	5.9	0.9	72.4	0.6
Malaysia	3.3	0.4	3.0	5.8	4.0	(0.3)	75.0	1.2
Philippines	3.6	2.7	2.0	2.9	4.4	2.1	73.7	1.9
Thailand	2.8	1.6	3.8	1.6	4.3	0.2	60.7	1.9
Viet Nam	4.8	3.0	2.5	2.4	6.2	(0.3)	53.5	1.4
	Bananas		***Pineapples***		**Mangoes**		***Coffee, Green***	
COUNTRY	**Yield**	**AAGR percent**	**Yield**	**AAGR percent**	**Yield**	**AAGR percent**	**Yield**	**AAGR percent**
China	23.1	4.1	22.5	(1.4)	8.7	3.2	1.3	19.8
Indonesia	14.7	1.2	8.2	(3.7)	4.7	4.3	0.7	3.5
Malaysia	20.5	2.2	32.0	1.9	3.9	(2.6)	0.8	0.7
Philippines	13.8*	3.2	35.9	7.8	6.4	(0.1)	0.8	(0.9)
Thailand	12.9	(0.0)	21.3	(0.8)	6.0	0.2	0.9	(0.5)
Viet Nam	12.2	(1.3)	8.0	2.0	4.5	(4.4)	1.5	3.2

** Cavendish banana farms in Mindanao can produce from 50-70 ton/ha*
Note: AAGR – average annual growth rate from 1995-2004
Source: FAOSTAT data, 2005 (www.fao.org)

Among crops, the largest areas of expansion (reckoning from harvested areas) are rice, banana, and mango. (What is not reflected is the large expansion in oil palm that is going into production). Rice is a crop where government spending and intervention is widespread. By contrast, banana and mango are private sector-driven.

[6] Private sector estimates 0.5 tons green beans per ha.

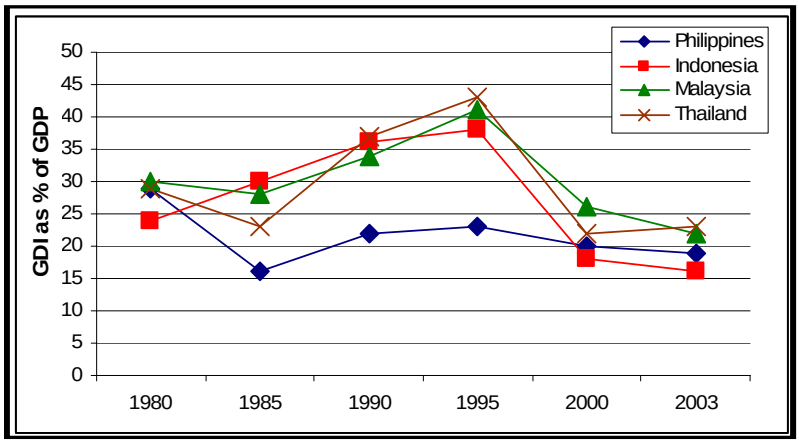
Altogether, it can be shown that agriculture growth in the last decade was private sector driven, and market-led. It makes strategic sense for private sector to invest more. But this is feasible only in a sound investment climate.

Investments in Agriculture

Investment in agriculture in the Philippine system of national accounts is measured by a component of the gross domestic capital formation (or investments) called breeding and orchard development.[7] However, this is a partial amount as it cannot account for investments in tree crops, fruit trees, aquaculture and fishing as well as the related farm equipment. From 1995-2004, investments in agriculture grew by 3.6 percent annually in real terms, as compared to agriculture growth of 3.1 percent.

The experience of many Asian economies suggests a high positive correlation between investment and economic growth. The higher the "investment intensity" (gross investment to GDP ratio), the higher the economic growth.

Figure 2. Gross Domestic Investment as Percent of GDP



Source: World Bank, World Development Report, various years

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

[7] Breeding stock covers outlays of producing units on livestock and poultry purchased and raised as breeding stocks, draught animals, dairy animals and layers. Orchard development refers to the outlays and expenditure on the cultivation of plantations and the planting of permanent crops until they become productive. However, it was reported that orchard development covers only plantings of timber species.

What Ails Philippine Agriculture?

Why is Philippine agriculture a laggard? Many analysts have flagged various factors, among them: policy environment, under-investment in rural infrastructure, inadequate R&D, weak extension services, poor governance etc. This paper will discuss the positive and negative factors that influence agribusiness (note: from here on, the operative word will be agribusiness)

Table 2.8. Factors at Work in Philippine Agribusiness

Positive	Negative
• Markets • Geographic Location • Natural Endowment • Entrepreneurial class • Trainable work force	• Land Policy • Rural Infrastructure • Governance (continuity, constant changes in the bureaucracy, etc) • Local Governance • Research and development (R&D) • Law and Order • Regulatory Framework • Inconsistent/Non-implementation of policies • Credit access • Trade protection policies • Other distortionary policies • Global market access • Corruption

Positive Factors

There are at least five factors at work in Philippine agribusiness. These are markets, geographical location, natural endowment, entrepreneurial class and trainable work force.

Markets. The Philippines is endowed with a large population (about 83 million in 2005) which is a natural market for food products. The slow growth in agriculture has, however, put a lid on the purchasing power of the rural sector, which comprises half of the potential market base. Moreover, the growth in agriculture would have a dampening effect on the growth of rural non-farm incomes through production and expenditure linkages (Reardon, c2004). According to market research firms, the AB households (earning about P 50,000 and above a month) comprise less than 3 percent of all households while the C households (earning over P 15,000 a month) comprises barely 20 percent. Altogether, about three fourths of the 16 million households have relatively low purchasing power.

Geographic Location. The Philippines is strategically located. It is near the fast

growing and high-income market of Japan, Korea and Greater China (Mainland, Taiwan, Hong Kong, and Macau) and the ASEAN. It faces the major sea lanes of East Asia. Altogether, there are about 300 million people with middle to high-class households in northeast Asia and some 120 million in the ASEAN. China alone is reportedly to have over 100 million middle class households, primarily situated along the coastal cities. In the south are Australia and New Zealand, which host large middle classes. High-income households, or those that earn about $ 2,000 per capita per year, demand greater variety and quality of fresh and processed foods.

Natural Endowment. The Philippines is blessed with varied climate that is favorable for growing tropical and semi-tropical crops. Mindanao is a prime example. It has become a food basket of the country and its agribusiness export hub.

Entrepreneurial Class. The Philippines is home to many entrepreneurs in agribusiness from fruit farms to aqua farms, from food processors to food service companies. Philippine brands such as Mabuhay and Estrella (Cavendish banana), Jollibee, Figaro, Red Ribbon, and Goldilocks have presence in many countries. They have survived in spite of the challenging realities of doing business in the country. Some have grown and some have continued to remain *underground*.

A Trainable Work Force. The country has abundant supply of a trainable workforce from farm workers, truck drivers, maintenance workers, to farm supervisors. They provide the backbone of a competitive agribusiness. However, the private sector feels that there is room for improving the education system at various levels.

Negative Factors[8]

There are many negative factors that work against Philippine agribusiness. These factors have been seen to discourage investments. These include land policy, absence/lack of rural infrastructure, poor governance (national and local), lack of law and order, low priority for research and development, poor regulatory framework, inconsistent/non-implementation of policies, credit access, trade protection policies, other distortionary policies, global market access, and corruption.

The Philippines has become an uncompetitive place to invest in due to many forces at work. In 2004, the Global Competitiveness Report ranks the Philippines as the 74th least competitive country in the world out of 104 countries. 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.

[8] The discussions drew heavily from an earlier report written by the author also for the World Bank entitled “Private Investments in Mindanao,” 2004.

Table 9. Global Competitiveness Index of Selected Asian Countries, 2004

Country	Overall Index	Three main components		
		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.

Land Policy. Land policy covers both public and private lands. Public lands account for more than half (15.8 million hectares) of the total land area of the country (30 million hectares). Private lands, meanwhile, comprise about 10 million hectares (2002 Census of Agriculture) and certified alienable and disposable lands comprise 14.1 million ha.

For public lands, the land policies that affect the investment climate include:

1. The Constitutional bias for domestic nationals (the 60:40 rule) in the exploitation of natural resources;
2. The 25 + 25 years constitutional tenurial limits on leases;
3. The limits on land use under public land tenurial instruments; and
4. Frequent changes in forestry laws.

The 60:40 rule. The Constitution provides that ownership of all investments in natural resources - forestry, pastures, fishponds, and mines - should be at least 60 percent in favor of Filipinos. While the provision is well-meaning, the limited access of many Filipinos to large and long-term financing for the development of long term crops, specifically timber trees, have led to the underutilization of many lands. Similar to industrial projects, foreign investors bring in not only financing but also markets, technology, technical and managerial skills for large-scale operations. The Philippine situation is a stark contrast from New Zealand's liberal forestry laws (foreign ownership of forests), which allowed it to expand its forest cover and transform the country into major forestry products exporter (New Zealand Embassy, undated). Stable forestry policies, which encouraged investments in tree plantations, have also made Chile a big exporter of forestry products. Today, the Philippines imports about half of its wood requirements.

The Constitutional land limit has long discouraged large-scale tree crop development especially 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 that leased lands to foreign investors such as Del

Monte about 8,000 ha (c. 1929), Dole about 8,000 ha (c. 1964), and Filipinas Palm Oil, 8,000 ha (c. 1980s). This 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.

The 25+25 year rule. The 25 +25 rule (i.e., 25 years lease, renewable for another 25 years) is deemed by investors as "short" for two cycles of rubber (70 years) and even of oil palm (60 years). Some even claim that three cycles are needed for long-term investments to even out the ebbs and highs of world commodity prices.

The Public land tenurial instruments**.** For decades, the DENR regulates plantings in timber license agreements (TLAs) and its sequel, the Integrated Forest Management Agreement (IFMA). Only timber species and natural rubber can be planted to 100 percent of the areas. It allows plantings of non-timber trees, such as oil palm, coffee, and fruit trees, to10 percent of the area. This has hampered plantings of oil palm, coffee and fruit trees in Mindanao. Other instruments such as Community-based Forest Management (CBFM) require development plans prior to approval by the Department of Environment and Natural Resources (DENR). In addition, the advent of the Indigenous People's Rights Act (IPRA) in 1997 further complicated land access concerns of private investors. Prior rights of investors (e.g. pasture leases) have been questioned because of the law. Other DENR regulations can be so 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.

There are at least eight tenurial instruments covering "timberlands" covering almost 8 million ha, or 50 percent of all public lands. The largest in area coverage are: CBFM projects, 5.7 million ha, TLAs (which are expiring soon), 691,000 ha, and IFMAs, 697,000 ha. Tremendous potential exists in public lands for timber and tree crops development if land access is made easier and if the information on their status are made easily accessible.

Changes in forestry laws**.** There are also frequent changes in forestry policies by the DENR. According to a wood industry association, the past decades saw too many changes in forestry policies that seemed to penalize companies with good behavior. The poor record for some timber license agreements (TLA) led to changes to what is now the integrated forest management agreement (IFMA). Of late, the massive landslide in eastern Luzon caused suspension of logging in all areas of the country causing loss of employment especially in Mindanao. To date, only the bans in Region 11 and Caraga Regions have been lifted.

As far as policies affecting private lands, aseries of well-meaning land reform programs 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 Comprehensive Agrarian Reform Program - CARP), as the name suggests, has more extensive coverage. It includes all private lands, except qualified fishponds, livestock and poultry farms. 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.* This invariably distorted the land market due to limits on transferability.

CARP, which has distributed large tracts of private lands, has benefited millions of tenants, farm workers, etc. The law expired in 1998 but was extended up to 2008. To date, of the 3.0 million hectares of private lands for acquisition, some 780,000 hectares or 26 percent have yet to be acquired. At a conservative value of Php 100,000 per hectare, some Php 78 billion (US$ 1.4 billion) would be required for additional land compensation. CARP has discouraged private investments in commercial farms for several reasons:

1. Uncertainties created by the slow acquisition process and questions on land valuation;
2. The loss of collateral value of agricultural land following stringent transferability provisions; and
3. The challenges of land consolidation for investments requiring larger lands (above five ha).

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-agriculture 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. Thus, the banks cannot warehouse lands in excess of five ha or sell the land to anyone unless s(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.

Senate Bill 206 was filed in June 2004 under the 13th Congress to address second generation concerns but the bill has yet to be passed.

Rural Infrastructure. The importance of infrastructure cannot be overemphasized. According to a study by the Inter-American Institute for Cooperation on Agriculture (IICA), "adequate infrastructure is crucial to development. It makes no sense for isolated regions to produce more efficiently if they can't get their products to market. And without infrastructure for health, it becomes difficult for rural families to be productive when one has to constantly confront illness."

Recent studies have shown that infrastructure development can help reduce poverty. In China, for instance, the development of low quality (mostly rural) roads has been found to "raise more people out of poverty per yuan invested than high-quality roads, making them a win-win strategy for growth and poverty reduction (Fan and Chang-Kang, 2005). Meanwhile, in India, "government spending on road construction reduced poverty more than did agriculture R&D and education spending" (IFPRI Forum, September 2003).

The Philippines has relatively high logistics costs because of poor transport network and inefficient ports and shipping. Among ASEAN countries, it has the lowest percentage of paved roads, a measure of infrastructure quality. In fact, according to Agriculture Secretary Arthur Yap, the cost of logistics in the country can account for a third of the final cost of the product to the buyer. Moreover, the speed of commodity transport and quality of infrastructure matter immensely for perishable produce. The poor state of infrastructure is exacerbated by the archipelagic geography of the country, which leads to the multi-modal transport and multi-handling of goods. According to experts, there are good lands in many parts of the country but these remain underdeveloped because of inadequate access. Given resource constraints, the agribusiness community in Mindanao prefers access infrastructure, particularly rural roads.

From 1996-1998, the DA Action Plan indicated that some P8 billion is needed to construct about 8,000 kilometers of farm to market roads (Habito, 2005). The allocation for such infrastructure, however, amounted to only P1.5 billion, less than 20 percent of what was required. Yet, the actual utilization was only P380 million or 26 percent of the allotment. Actual roads constructed only reached 381 kilometers or 10 percent of target.

Utility costs also matter in storage and processing of agriculture products, more so for products which need a cold chain. The combination of high logistics costs and high power costs is a lethal combination to competitiveness.

Table 10. Infrastructure Endowment: Selected Asian Countries

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

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

Governance. Good governance is crucial to achieving economic success. Problems on governance impact on economic performance such as government revenue losses, the low quality of public investments and services, reduced private investments, and the loss of public confidence in government (IMF, 1998).

In the Philippines, governance is characterized by frequent changes in leaderships and lack of continuity in programs and projects. For instance, in the agriculture department alone, after the term of Sec. Arturo Tanco, the longest serving DA secretary of 14 years, there had been one secretary every two years since 1986. The list includes: Ramon Mitra, Carlos Dominguez III, Senen Bacani, Roberto Sebastian, Salvador Escudero III, William Dar, Edgardo Angara, Domingo Panganiban, Leonardo Montemayor, Luis Lorenzo, Jr., and now Arthur Yap. Imagine, eleven secretaries in almost 19 years! This is not helping as many projects and programs in agriculture are long-gestating. The lack of continuity at the DA and its agencies is claimed by a former DA secretary as a problem worse than corruption.

In addition, the practice of using government posts as payments of political debts has a debilitating effect on the bureaucracy. In the Philippines, the President appoints from the Secretary of a department to the Service Director. In Malaysia and Korea, it goes down only to the Minister and Deputy Minister. In the former, the ranks of Secretary General down are all professional civil service positions. No politician can bypass that. If and when, the few bureaucrats will face lateral transfers to other departments.

Local governance. Local governance can be gauged in terms of the utilization of the internal revenue allotment (IRA); the continuity of local policies despite elections; and cooperation between the local government units (LGUs) and private sector. Local governance is also reflected in the level of resource mobilization outside of the IRA as well as in the speed of the local bureaucracy in granting business permits. And more damaging is the practice of some LGUs for "facilitation" fees for business permits and environmental compliance certificates. Local governance can spell the difference between attracting or discouraging investments.

The advent of the Local Government Code in 1991 was well-meaning. Devolution was supposed to empower the LGUs. Management experts, however, should have been consulted on the issue of extension services to small farmers, which have been

wholly transferred from the DA to the LGUs. The financial burden of implementing extension services now rests with the LGUs although the bigger issue is not budget but rather the difficulty of ascertaining the quality of extension services they provide due to lack of available means for performance monitoring and evaluation (Esguerra, 2005). A municipal agricultural officer reports to the Mayor but does not report to the Provincial Agricultural Officer (PAO). The PAO is under the Governor and the DA Regional Director has no authority over him. There is no chain of command. For career pathing, there is little scope for job rotation.

The devolution also did not help LGUs much in terms of rural infrastructure projects due to several reasons. These reasons include: ambiguous delineation of roles and responsibilities between LGUs and DPWH; limited LGU funds; lack of technical and administrative capability in some LGUs; and weak coordination between LGUs and DPWH (Manasan and Mercado, 2002 as cited by Esguerra, 2005). It was added that "the share of public works in total LGU expenditures has been going down in favor of social services" since the advent of the devolution policy.

Research and development (R&D). The country's budget for research and development (R&D) has remained low. In 1995, it was 0.23 percent of agriculture GVA. It has not changed much today and has probably even deteriorated because of budgetary constraints on the part of the government.

The Agriculture and Fisheries Modernization Act (AFMA) has mandated a budgetary allocation for agriculture and fisheries R&D of at least one percent of the gross value added in agriculture. The actual budget, however, was said to be less than 0.5 percent. The global benchmark is 2 to 3 percent. Such low support for R&D has affected the competitiveness of Philippine agriculture in terms of productivity, cost, quality and product innovation. It is worth mentioning, however, that the global winners in Mindanao like banana and pineapples have strong private-sector led R&D. The private-funded research by the Philippine Sugar Research Institute is also being felt.

Meanwhile, only about 6 percent of the operational budget of the DA during the past five years went to research (Project Appraisal Document (PAD) of Diversified Farm Income and Market Development Project, 2004). The focus has mainly been on "expanding production, with little provided for market-driven and post-harvest research in commodities with recognized market potential." In effect, the problem on R&D is more than the issue of budgetary allocation. A more serious concern is the supply driven nature of research, which is not responsive to market needs.

With respect to extension, the private sector, market-driven contract farming schemes (e.g. bananas and pineapples) need expansion and replication in other crops.

Table 11. Private research and research intensity in Asia, 1995

Country	Private R&D* (US$ M)	Public R&D (US$ M)	percent of total R&D	Private R&D Intensity**	Public R&D Intensity**
China	16.0	479.5	3	0.009	0.327
India	55.5	347.9	14	0.059	0.270
Indonesia	6.1	81.0	12	0.018	0.241
Malaysia	16.6	64.0	21	0.150	0.577
Pakistan	5.7	25.0	19	0.036	0.159
Philippines	10.5	37.5	22	0.064	0.230
Thailand	17.4	127.0	12	0.095	0.691
TOTAL	127.8	1,125.3	11		

*calculated using official exchange rates
** R&D intensity equals R&D as percentage of agricultural gross value added
Source: Pray and Fuglie as cited by Pascual-Gapasin, 2005

Box 2. Benchmark of Best R & D in ASEAN Relevant to ASEAN Food and Agriculture

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. 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 improvement 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 in some products.

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. In hybrid rice, both the government (Philippine Rice Research Institute) and private companies are involved in seed production.

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

Law and Order. 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 with good natural endowments. 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. A Mindanao firm, for example, pays about 1.7 percent of sales for a security force.

Regulatory Framework. The current state of affairs in regulation is best captured by a recent WB study[9] which said that "many regulations are based on outdated legal mandates that could not have considered current developments and issues."

The Philippines has its share of extensive interventions that have discouraged both existing and potential investors. These regulations range from antiquated laws to more recent ones. They include:

1. The National Food Authority's extensive control of rice trade, a glaring example of which is its ban on rice export;
2. The Sugar Sharing Law that provides that planters will share in sugar and its byproducts and thus discourages investments in byproducts industries;
3. The law that bans landowners from cutting their coconut trees Cutting requires permit from the Philippine Coconut Authority;
4. The law limiting banana hectarage which is irrelevant and ignored;
5. The oversight of the Fertilizer and Pesticide Authority on farm chemicals which Mindanao investors claim have led to comparatively high prices relative to China and ASEAN;
6. The slow issuance of environmental clearance certificate; and
7. The setting of minimum wage by law by Regional Tri-Partite Wage Boards.

In addition, there is widespread frustration with the food safety and quality regulations that stem mainly from the lack of transparency, cumbersome procedures and inconsistent implementation, rather than regulations themselves. This has led to practices of regulatory avoidance, the impact of which has been added costs, high levels of rejections and detentions of exports and greater risk for investors in the sector. Regulatory services lack access to certified laboratory facilities (PAD of Diversified Farm Income and Market Development Project, 2004)

Inconsistency in, and non-implementation of, policies. Changes in forestry policies have been earlier cited. It has often been said that many laws are in place in the country and that the problem is in the implementation of these laws due to lack of several things: financial resources, manpower, commitment and political will.

A case in point is the AFMA, which was passed into law in 1997. The AFMA has a grandiose vision: to transform agriculture and fishery into globally competitive industries. To be able to do this, it provided for an additional budget for the DA of P15 to 20 billion a year, on top of its regular budget. However, this did not happen. In 2003, the DA budget (regular plus AFMA) was only P16.8 billion, of which some 60 percent are reportedly for personnel services and maintenance and operating expenditures.

[9] Dela Peña, Beulah. 2005. Rural Growth and Development Revisited: Policy Issues. World Bank.

Credit Access. Credit has been a major issue in agriculture. In the sector, about three-quarters of agriculture credit is provided by the informal sector (including input suppliers and traders) (Agricultural Credit Policy Council). In recent years, banks have been awash with liquidity but have preferred to invest in risk-free treasury bills and to lend to the top 1000 corporations. The Banks claim that there are funds but there is a dearth of projects in the pipeline. Commercial banks are hesitant to lend to small holders as they are not their market niche and the transaction cost and risk are high. Moreover, under CARP, agricultural land has lost its collateral value. There are emerging successes in micro-finance in the rural areas but micro-finance is reportedly more appropriate for rural non-farm enterprises where borrowers' cashflows allow for daily or weekly payment. Some sector claim that micro-finance may not be the ideal vehicle for small farm lending given the longer gestation of crops and livestock. The Land Bank has targeted that 65 percent of its loan portfolio for agriculture through direct lending or through conduit banks. Rural banks are good conduits given their relatively extensive presence in the rural areas. However, many shy away from agriculture lending and prefer salary and small enterprise loans. On the other hand, commercial banks are unwilling to lend to agriculture given perceived risks and high transaction costs. Traditionally, they have lent to agribusiness firms. This in part helped in expanding contract growing of banana, pineapple and oil palm.

Long term credit for tree crops (oil palm, rubber, etc) and fruit trees (e.g. mango) remain scarce. Banks are unable to lend as it lacks the deposit base with long maturity that could match the requirements of a long-term crop The domestic capital market is undeveloped and the only main source of long term finance are the insurance companies but are not disposed to agriculture lending. The lack of long-term finance is also a carry over of long-term bias. For over 40 years, since the early 1950s, the General Banking Act (GBA) provided that the maximum grace period for loans would be three years. Three years is insufficient for perennial crops with negative cash flows during their immature period of four years or more. This GBA provision was only amended by the Agriculture and Fisheries Modernization Act (AFMA) in 1997 and implemented under a Bangko Sentral ng Pilipinas (BSP) Memorandum Circular in late 1999. It has reportedly lent mainly through conduit banks about Php200 million out of its total portfolio of Php70 billion. Interestingly, the large- scale small-holder development of tree crops in Malaysia can be traced to bank-assisted projects such as those implemented by the land agencies Federal Land Development Authority and the Federal Land Consolidation and Rehabilitation Authority in the 1970s and 1980s. Large private investments in Malaysia came from foreign investors.

Trade Protection Policies, Several agricultural products enjoy trade protection. These include: rice, corn, sugar and sugar-using products, pork and chicken. For rice, the protection is more in terms of the imposition of quantitative restrictions[10] (QRs) on imports. This protection keeps rice prices at relatively high levels compared to other countries and this exerts an upward pressure on wages and reduces the country's labor

[10] Rice enjoyed exemption (for 10 years) from the WTO commitment to tariffy QRs. The rice QRs, however, expired in 2004 and negotiations are now being made with WTO partners for a possible extension.

competitiveness (Tolentino as cited by Dela Pena, 2005). Meanwhile, the in-quota tariff on corn (35 percent) affects the competitiveness of the livestock and poultry industries, since corn constitutes the bulk of feed costs for these industries. Pork and chicken import tariffs are lower at 30 percent and 40 percent, respectively. Tariffs on sugar at 50-65 percent, meanwhile, impact on sugar-using industries particularly those destined for the local market. Yet, imports of sugar using products have lower tariffs of only 5-10 percent. There are also tariffs on packaging materials (e.g. plastics) and this also affect the overall competitiveness of the industries, which use them. Meanwhile, the high tariffs on corn (35 to 40 percent) affect the competitiveness of the hog and poultry industries since corn constitutes a large part of feeds costs. Pork and chicken tariffs are at 30 percent and 40 percent, respectively. Meanwhile, sugar tariff is at 50-65 percent and this has impact on the competitiveness of the sugar-using industries, particularly those sold in the local market (De la Pena, 2005). By contrast, the tariffs of sugar-using products range from 5 percent to 15 percent and going down further under AFTA. In a related concern, packaging materials (e.g. plastics) have higher tariffs than packaged foods. For example, polyethylene and polypropylene powder and granules, raw materials for packaging, have tariffs of 15 percent (DA Planning Office, 2005).

Other Distortionary Policies. The bias for rice self-sufficiency has distorted resource allocation. Over the years, rice has used about two-thirds of the total non-personnel budget of the DA. In 2005 alone, over P6 billion (P4 billion for irrigation and P2 billion for the GMA Rice Program) was allotted to rice. This has cut support to other crops that have good market and profit potential, particularly tree crops (World Bank, 1999). The bias for self-sufficiency has further reduced support for R&D on emerging tropical fruits (e.g. durian, mangosteen), food quality and safety measures, as well as access infrastructure budget in areas with good potentials (e.g. tropical fruits) in Mindanao.

Global market access. Global trade issues that must be addressed include: (a) non-tariff barriers on exports of Philippine fruits and vegetables (e.g. pest risk assessment for Philippine bananas and pineapples to Australia, mangoes to the US and Australia coming only from Guimaras); (b) discriminatory tariffs on exports (e.g. canned tuna to EU); and (c) lack of bilateral fishing rights to support domestic tuna industry (e.g. Palau, Papua New Guinea, Federated States of Micronesia, and Kiribati – all Pacific countries).

Corruption. Last but not least is the issue of corruption, which is a serious problem as it discourages investments and derails the implementation of programs and projects. In fact, the Global Competitiveness Report (GCR) 2004 ranked the Philippines as the 100th least corrupt country (or alternatively, the fifth most corrupt country) in the world out of 104 countries. Corruption stems mainly from the lack of transparency, and ambiguity in most regulations. It is also manifested in irregular payments in: (a) imports and exports; (b) tax collections; and (c) public utilities. Among Asian countries, corruption ranks high in the Philippines, Indonesia and Vietnam (GCR, 2004). Of late, the government has started to run after tax evaders, both companies and individuals.

A Brief Overview of the MTPDP Agribusiness Chapter

The Medium-Term Philippine Development Plan (MTPDP) Targets

Overall Targets. Under the MTPDP, the domestic economy (as measured by the gross domestic product - GDP) is projected to increase by an average of 6.3 to 7.2 percent annually from 2004 to 2010. On the expenditure side, gross investments will increase by 11.3 to 12.7 percent a year. Meanwhile, on the production side, agriculture is projected to increase by an average of 4.1 to 5.1 percent yearly.

Table 12. 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
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

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, therefore, accelerating growth in the agriculture sector poses tremendous challenges to the government.

Table 13. Actual vs. Projected MTPDP Targets
Average annual growth rate in percent

	Actual (1998-2003)	**Projected (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

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, or an increase of Php 2,275 billion to Php 2,714 billion. Gross investments 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 Php 7,936 billion, or an average of Php 1,079 billion to 1,134 billion yearly. Based on simple ratio, the incremental capital output ratio (ICOR) is 3.32 to 2.92, a far more efficient use of capital than what was experienced in the past ten years (1994-2003) at 6.44.

Agriculture is seen to grow from Php 638 billion (Php215 billion at constant 1985 prices) in 2003 to Php 845 billion to Php 904 billion in 2010 at constant 2003 prices. This represents an incremental output of Php 207 billion to Php 266 billion. Assuming an ICOR of 4 to 5, the total investment required will be Php 828 to Php1,330 over seven years at 2003 prices, or an average annual outlay of Php 118 billion to Php 190 billion, equivalent to 11 to 14 percent of the mean annual planned gross domestic investments. Suppose 80 percent of the required investments will come from the private sector, the amount translates to Php94 billion to Php 152 billion of private investments in agriculture a year.

Agribusiness Targets. With respect to agriculture, the principal goals under the MTPDP are:

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

Box 3.
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
Source: MTPDP Document

To achieve the target, at least one million ha of the government lands will be covered (Yap, 2004). The Plan also calls for complete surveys, classification and distribution of public alienable and disposable (A & D) lands by 2010.

Box 4. MTPDP AGRIBUSINESS TARGETS	
Goal	**Objectives**
1. Develop at least 2 million ha and create 2 million jobs	▪ Design and establish the framework and mechanics, including public-private partnership arrangements, by end 2005 that will facilitate the transformation of farmlands into agribusiness enterprises. ▪ 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. ▪ 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 ▪ Promote off- and non-farm enterprises (including agri-processing) in the agribusiness lands to increase and stabilize rural income ▪ Make 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.	▪ Raise factor (land, labor and capital) productivity to approach the regional average within six years. ▪ 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. ▪ Implement critical governance reforms to establish a bureaucracy that will effectively be responsive to the demands of a productive and enterprising agricultural sector.
	Source: MTPDP Document

The MTPDP specifies that the new agribusiness lands include:

1. Underutilized farm lands which can be made more productive through increased cropping intensity, intercropping and diversification;
2. Idle and marginal farmlands, including denuded upland areas; and
3. Idle off-shore and inland bodies of water for aquaculture.

The DA has defined detailed six-year targets for agribusiness lands, productivity improvement and job creation. Overall, the targets include 2.05 million ha of new lands to generate 2.81 million jobs; 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 (i.e., one ha is to one job) exceed the macro target of 2 million ha for each. The agencies responsible for these targets are the DA, the Department of Agrarian Reform (DAR) and the Department of Environment and Natural Resources (DENR).

Table 14. Updated Area and Job Targets, 2004-2010

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

Source: Department of Agriculture

Table 15. Six-Year Targets for Areas for Agribusiness and Productivity Improvement and Jobs

Commodity	**New areas (has.)**	**Jobs to be generated**	**Existing areas (has.)**	**Jobs to be generated**
Rice			875,130	80,860
Corn	157,000	157,000	-	-
Livestock	45,200	45,200	-	-
Fisheries	17,210	743,540	-	-
HVCC (Food)	214,350	251,339	214,780	214,780
HVCC (Non-food)	1,413,600	1,413,600	170,340	170,340
TOTAL	1,847,360	2,610,679	1,260,250	465,980

Note: HVCC – high value commercial crops
Source: DA

A Brief Assessment of Goal 1: Development of at least 2 million hectares and 2 million jobs

Area Expansion. Achieving the goal will be one of the greatest challenges of the Philippine government. A cursory look at the record of selected crops for the past ten years 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 for mango, coffee and abaca as well as the zero growth for tobacco. Market forces do not favor a higher level of expansion.

Table 16. COMPARISON OF AREA EXPANSION: PAST AND PLANNED
Selected Crops in hectares

Crop	1994	2003	AAGR Percent	2003	2010	AAGR percent
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 (logarithmic method for 1994-2003 series)
Source: MTPDP, BAS

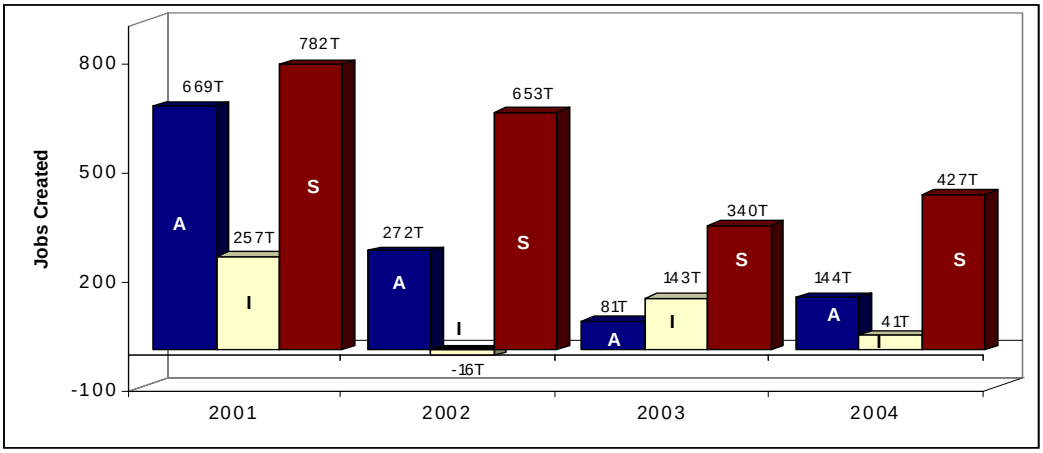
Area and production targeting can be tricky given the amount of resources the government plans to commit in the next six years. An explicit *market-driven, private sector-led growth is a strategic imperative.*

Market demand can be driven by two "megatrends:" the growth in the domestic market and the expansion in the global market. Growth in the domestic market is driven by two macro forces: the growth in income and the growth in population. These apply to wage goods such as rice, meat, and fish. Meanwhile, for export markets such as the USA, EU and large markets (i.e. China and Japan), competition will become increasingly intense considering tariff reductions and more efficient logistics. The export products include coconut oil, banana, canned tuna, seaweeds and carrageenan.

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 yield increases.

Job Creation. The MTPDP expects to generate 10 million jobs from 2004 to 2010, or about 1.67 million new jobs a year. A review of past performance (2001 to 2004), however, showed that some 3.8 million jobs were created over four years, or an average of 950,000 jobs yearly, Agriculture contributed 31 percent, or a total of 1.17 million jobs over four years, equivalent to 292,000 jobs a year. The MTPDP revised target for agriculture will amount to 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. Jobs Created from Agriculture, Industry and Services, 2001-2004



Source: National Statistics Office

Private Sector Orientation. The private sector will certainly play the major role in agribusiness development. There is therefore a need for the Government to provide a sound investment climate.

Program Financing. The government hopes to generate at least P100 billion from various sources (government financial institutions or GFIs, private sector, and LGUs to finance the private sector investments for six years for the targeted two million ha of new lands. Agriculture secretary Arthur Yap indicated that Php 45 billion will come in the form of loanable funds from GFIs; Php27 billion from the Coconut Industry Investment Fund (CIIF); Php 20 billion from the private sector; and Php 4.5 billion from LGUs. Altogether, the aggregate project pipeline will average Php 50,000 per ha over six years.

Table 17. Total Agribusiness Program Financing, 2004-2010

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

A Brief Assessment of Goal 2: Make Food Plentiful at Competitive Prices

Following a supply chain framework (i.e., from "seed to shelf"), food costs can be *moderated* provided the certain factors are addressed in the implementation of the MTPDP. These are:

1. Increased farm productivity at contained farm costs;
2. Decreased post-harvest quantity and quality losses in the supply chain segments;
3. Reduced logistics costs from the farm to the ports or final markets.

These objectives could mean efficient food highways from the "food baskets" such as Mindanao. The MTPDP cites the strategic impact of *contained* food costs. High food costs exert pressure on wages. High wages, in turn, make the country uncompetitive in labor-intensive industries, thus adversely affecting job creation in all sectors.

Areas for Consideration

The MTPDP goals of growth and job creation are in the right direction. Growth will have a positive effect on employment. At the same time, the strategic imperative of job creation finds critical importance on the growing labor force that is already bedeviled by high unemployment levels. Meanwhile, reducing prices of wage goods require the adoption of a total supply chain culture, with emphasis on the competitiveness attributes of cost, quality, supply reliability, appropriate product innovation and customer service.

On the whole, while the MTPDP targets are laudable, there may be need to consider the following:

1. The area targets by crop need to be refined following in-depth market review;
2. The total investment requirements to attain targets could be far higher than the DA estimate of Php 100 billion although the assumptions may be different.
3. There is little detail on the 1.26 million ha of existing coconut lands for inter cropping. There is no plan for replanting and fertilization.
4. There is need for a market-led tree plantations in public and private lands.
5. There is need for comparison of current profitability of each crop and their respective returns to labor for small holders to guide *crop choice*.
6. The marketing intelligence, promotion and supply chain coordination must be well-articulated during implementation.

The private sector will definitely play a major role in achieving the agribusiness targets of the MTPDP. Providing a sound investment climate to encourage investments will indeed be crucial in this regard. These are discussed extensively in Chapters 4 and 5.

Strategic Framework to Address the Challences

Strategic Framework

Productivity growth in the Philippines, be it in labor, total factor productivity or yield, has been rather slow. While there are indeed weaknesses across the whole supply chain (i.e., input supply, production, processing to marketing), the common observation was that the relatively poor showing could be attributed more to the absence of a sound policy environment that promotes investments.

One way of identifying gaps in productivity is through benchmarking. Benchmarking is the "search for and implementation of best practices" in order to "raise the performance level of a company's products, services and business to leadership levels" (Camp, 1994). The compelling force behind benchmarking has always been "the drive to be competitive." Benchmarking can be "instrumental in turning unproductive operations into efficient, profitable ones."

The country has globally competitive industries but these are few and far between compared to uncompetitive ones. Moreover, the scale and the number of beneficiaries appear small compared to the bigger picture. "Competitive" in this sense means that the commodities are exported and little of them are imported unless the country is in short supply. "Uncompetitive" means they are not exported as producers will incur heavy losses (rice and corn), or exported but productivity is far lower compared to competitors (e.g. coconut).

Furthermore, the competitive industries are those where there are minimal gaps in productivity, if at all, such as in the case of Cavendish banana, pineapple, tuna and the like. They are usually the farms and firms that did benchmarking and continue to do so. On the other hand, the uncompetitive industries are those where gaps in productivity are large such as in rice, corn, coconut, etc.

A University of Asia and the Pacific (UA&P) study[11] which analyzed the competitiveness of several agricultural commodities cited that rice, corn, chicken and durian are generally price competitive at import parity scenarios (with tariffs) but not under export parity scenarios. Export-oriented products - rubber, banana (saba), mango, seaweeds (dried and carrageenan) and banana chips - were found out to be price competitive under export parity scenarios. In terms of costs, the country appears not competitive in the imports and exports of hogs and broiler. Hogs have a "natural" protection due to preference for fresh/chilled pork by consumers. Frozen pork are mainly for processors only. For others, i.e., durian, native banana and dendrobium, the country possesses competitive advantage but could not go into export because of limited production volumes. Further, the study noted "wide disparities in farm productivity between typical farms and benchmark farms," which it said, "can be explained by the level of input use and farm management. This causes the overall farm productivity to be low given the preponderance of typical farms. However, the positive note is that

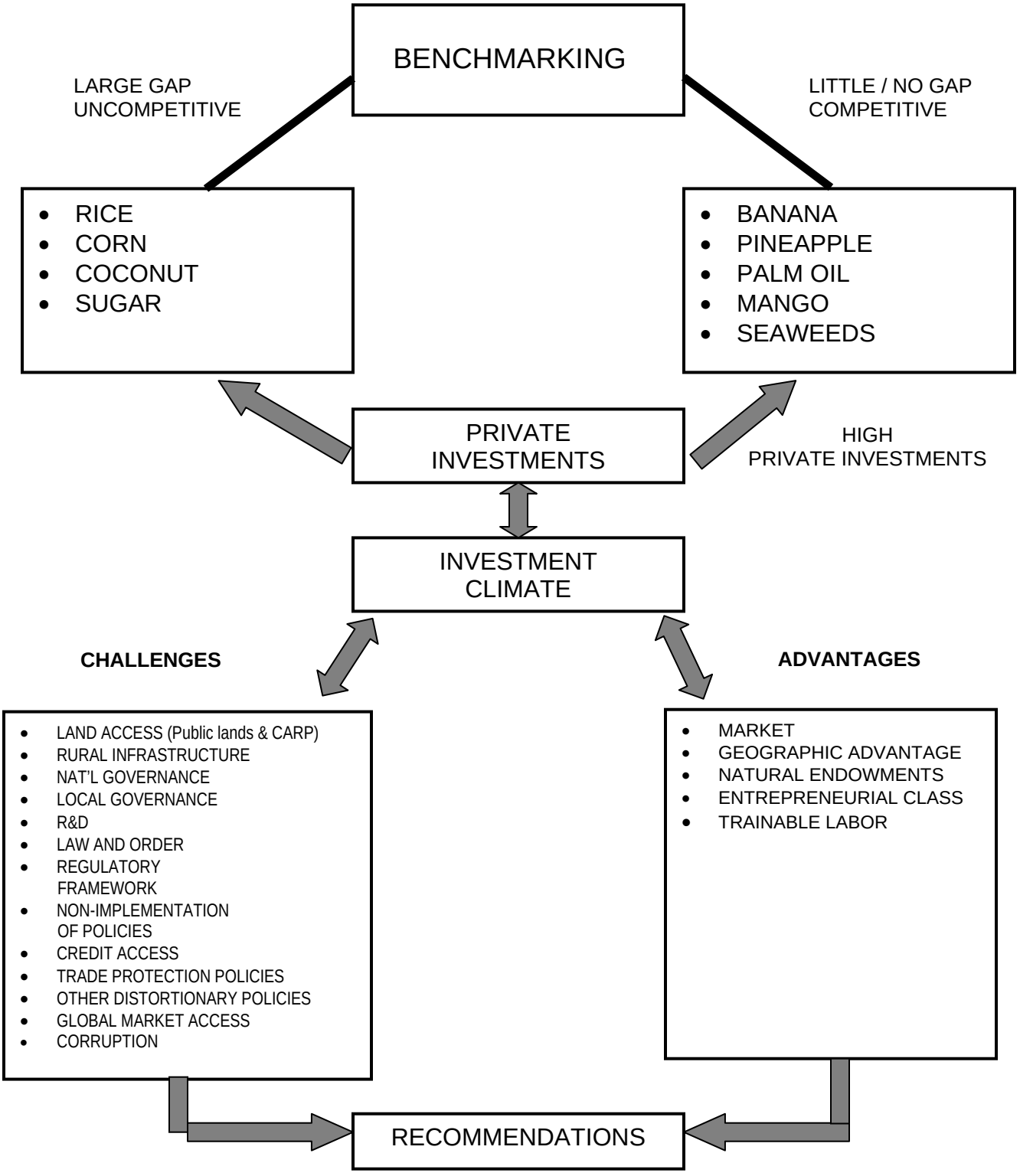
[11] UA&P. 2000. Competitiveness Analysis and Benchmarking of Philippine Agriculture. A report submitted to the Department of Agriculture.

technology is already available, but not widely disseminated." The study concluded that "there is scope for increasing farm productivity using best practices to address the challenges of global competition."

A common thread in the success of the competitive industries is private sector involvement, particularly, in terms of investments. These leaders enjoyed relatively high levels of private investments (private-sector led) as compared to the laggards, which are mostly "political" crops.

Private investments, therefore, are crucial for achieving competitiveness. Unfortunately, there are positive and negative factors that affect the investment climate. The key is to be able to provide a sound investment climate that will promote private investments. This could be done by capitalizing on the positive factors at work and addressing those that hinder investments. After all, a sound investment environment may be the largest single hope for Philippine agribusiness.

STRATEGIC FRAMEWORK
CLOSING THE PRODUCTIVITY GAP
FOR PHILIPPINE AGRIBUSINESS



* Continuity, bureaucracy, etc.

The Competitive Industries

Many of the country's competitive products are nurtured in Mindanao. The region has developed centers of product excellence: Cavendish banana in Davao Gulf; pineapples in Northern Mindanao and Socssksargen; seaweeds and carrageenan in ARMM and Western Mindanao; tuna in Socsksargen and Western Mindanao; banana chips in many regions; and of late, highland bananas in Bukidnon.

Table 18. Typology of Competitive and Uncompetitive Industries in Philippine Agribusiness

Competitive	Industry in transition	Mostly Uncompetitive
Cavendish Banana	Cardava banana (raw material for banana chips). Chips are competitive	Rice
Pineapple	Sugar (about 20 percent of farms are competitive)	Corn
Mango	Desiccated coconut is competitive	Coconut (low yield)
Seaweeds		
Tuna		
Palm oil		

Why are some Philippine products competitive and others are not? Competitiveness means several aspects: marketing advantage, and efficient supply chains. The main examples are Cavendish banana, fresh and processed pineapples, mango, seaweed and its processed product carrageenan, canned and sashimi tuna, etc. There are corporate players in these businesses that orchestrate the whole market-driven supply chain that addresses cost, productivity, quality, reliability, product innovation and customer service (Lorenzo, 2001).

The cases of banana and pineapple are interesting. They have the *first mover* advantage of being able to achieve the critical mass of operation (large area of plantations to feed their processing plants) before the advent of the Comprehensive Agrarian Reform Program (CARP) in 1988. They have also located in good growing areas near the company-built ports. The advent of CARP was a tough period of adjustment for the company. The paradigm has to shift from fully control plantation to lands leased from their farmworkers. As market expanded, both tended toward forms of contract growing or farm management contracts as larger tracts of land are difficult to consolidate given the retention and transferability limits under CARP. Certainly, CARP poses a greater challenge to new investors who lack familiarity with Philippine conditions.

For tuna, the canneries in General Santos are near the fishing grounds of southwest Pacific, the largest contiguous tuna fishing ground in the world. The fishing fleets (foreign and local) are manned mostly by skilled Filipino sailors. Meanwhile, tuna processing is done by skilled workers, mostly Filipino women. From the processing plants, which are Hazard Analysis Critical Control Point (HACCP) certified, canned tuna is shipped abroad. The area is served by a good fish port, built with Japanese aid. While the supply chain is not "fully integrated," it is compensated by the rapid flow of information among the players, which leads to a certain level of coordination. Besides,

there is no need for roads to be built or maintained. While tuna has come a long way, it faces tariff discrimination in the European Union (EU) and recently in the United States (US). The former slaps 24 percent Most-Favored Nation (MFN) duty on ASEAN canned tuna compared to zero for ACP (African, Caribbean and Pacific) former colonies[12]; the latter gives preference (zero duty) to pouched tuna from Andean Pact countries.

The seaweed-carrageenan story is similar. Undoubtedly, the Philippines is blest with ideal growing grounds in many places, particularly Mindanao and Palawan. It is a natural resource endowment. The presence of marketing system (the traders!) has brought the small growers in such far-flung areas as Sitangkai (Tawi Tawi) to the global supply chain. The foreign and Filipino-owned processors in Cebu and Zamboanga have provided a competitive market for seaweeds and the global reach to market seaweeds and carrageenan. Still, a lot needs to be done in improving seaweed quality coming from the farms.

The experience of an oil palm company is similar. As it could no longer expand beyond its core plantation of 1,800 ha, it had to undertake extensive (over many provinces) contract growing by advancing seedlings to small to large growers. It is forced by circumstances but new players from Malaysia are not encouraged by the challenge of dealing with too many growers and the difficult task of consolidating the minimum hectarage to support a processing plant.

[12] In 2003, the EU approved a 25,000-ton quota at 12 percent duty for canned tuna from ASEAN. Thailand got about 15,000 tons; the Philippines, 9,000 tons; and Indonesia, about 1,000 tons.

Box 5
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 (i) market information and development services; (ii) safety and quality assurance regulatory systems; and (iii) 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 percent 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.

- World Bank. 2004. PAD - Diversified Farm Income and Market Development Project.

Recommendations

The agribusiness targets under the MTPDP focus on the development of at least 2 million hectares (ha) of **new lands** for agribusiness in order to contribute 2 million out of the 10 million jobs targeted as a legacy by 2010. They also focus on making 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. As mentioned earlier, the private sector will definitely play a major role in achieving the agribusiness targets of the MTPDP.

Meanwhile, the globally competitive industries (i.e., those industries with little or no gaps in productivity) in the country, e.g., bananas, and pineapples, have enjoyed relatively high levels of private investments (private-sector led) as compared to the laggards, which are mostly "political" crops. **Indeed, having a sound investment environment may be the largest single hope for Philippine agribusiness.**

Private investments account for about eighty percent or more of total investments in agriculture. Thus, the private sector is a major driver of economic growth in general, and rural growth in particular. "While private agribusiness growth depends principally on private initiatives, the public sector maintains an important role in creating a facilitating policy environment and fostering development of free and fair markets" (World Bank, 2004). Providing a sound investment climate is therefore crucial in achieving not only the targets set forth under the MTPDP but also in addressing productivity gaps.

Box 6. World Development Report 2005: A Better Investment Climate for Everyone

According to Francis Bourguignon, World Bank Chief Economist, the main messages of the WDR can be summarized into four simple points:

First, a good investment climate is critical to growth and poverty reduction. Of course, it contributes to expanding opportunities and incentives for firms of all types, from micro-entrepreneurs to the informal economy, to the formal economy, to multinationals to invest productively and create jobs and expand. But society as a whole also benefits from a better investment climate through more and better jobs, more affordable goods and services and through the public services that can be financed from taxes on the growing private sector.

Second, how to get a better investment climate? Essentially, through reducing unjustified costs and risks faced by firms and through eliminating barriers to competition. What are these costs and risks? Essentially, weak contract enforcement, corruption, crime, unreliable infrastructure, and burdensome, inefficient regulation; but also must take into account risks like policy uncertainty, insecure property rights, or macroeconomic instability, which are also powerful deterrents to investment.

Third conclusion: progress requires more than change in formal policies. It is not sufficient to pass a new law. We have or we observe in surveys a gap between formal policies and what happens in practice. The problem is to change things on the ground, not only in the books.

Finally, this report is important for identifying priorities. Impressive progress can be obtained by tackling the most important issues rather than spreading effort on the whole range of investment climate determinants.

- *Excerpts from the World Development Report 2005 Press Briefing, September 28, 2004, Washington D.C.*

Box 7. Spurring growth and poverty reduction

Growing evidence demonstrates the fundamental role that an improved investment climate has in encouraging growth and poverty reduction – which is how China lifted 400 million people out of poverty, India doubled its growth rate, and Uganda grew at eight times the average of other sub-Saharan countries. While the scope of policy areas covered by the investment climate is broad, the new sources of micro-level data provide useful insights. Firms assess the package of policies and behaviors as a whole, and through the lens of costs, risks, and barriers to competition. Addressing the most pressing of these concerns can spark a tremendous response from the private sector.

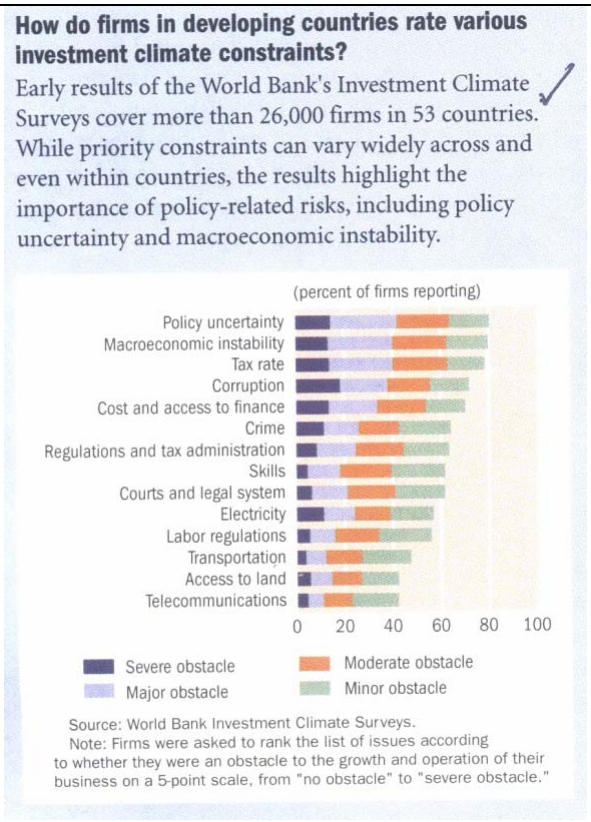
Risks. The surveys find that policy-related risks dominate the concerns of firms in developing countries. Uncertainty about the content and implementation of government policies is the number one concern, followed by macroeconomic instability, arbitrary regulation, and weak protection of property rights. Together they cloud opportunities and chill incentives to invest productively and create jobs. Nearly 90 percent of firms in Guatemala, and more than 70 percent of firms in Belarus and Zambia, find the interpretation of regulations unpredictable. More than 80 percent of firms in Bangladesh, and over 70 percent of firms in Ecuador and Moldova, lack confidence in the courts to uphold their property rights. Improving policy predictability alone can increase the likelihood of new investment by more than 30 percent.

Costs. The policy-related costs shouldered by firms can be substantial and make many potential investment opportunities unprofitable. The Doing Business indicators highlight the heavy burden imposed by outmoded or ill-conceived regulation. But regulation is part of a larger problem. Costs associated with unreliable electricity supply and other infrastructure, crime, and corruption can impose costs that are more than double those of regulation. Together with weak contract enforcement and onerous regulation, these costs can amount to over 25 percent of sales – or more than three times what firms typically pay in taxes. The amount to over 10 percent of sales in Eritrea, India, and Kenya, while the costs of crime exceed 10 percent of sales in Armenia, Azerbaijan,, and Peru. Bribes average more than 6 percent of sales in Algeria, Cambodia, and Nicaragua.

Barriers to competition. Firms naturally prefer less competition than more, but a barrier to competition benefiting one firm denies opportunities for others. Competitive pressure drives firms to innovate, improve productivity, and share the benefits of productivity gains with consumers and workers. In fact, the WDR found stronger competitive pressure can increase the probability of innovation by more than 50 percent. Many factors, including economics of scale and market size, can influence the level of competition in a market. But governments also influence competitive pressure by regulating market entry or exit and by responding to anti-competitive behavior. Openness to trade can be one of the more effective means of increasing competition. At the aggregate level, competition is difficult to measure, but firm-level evidence shows how much competitive pressure can vary among countries. Nearly 90 percent of firms in Poland report strong competitive pressure, more than twice the share of firms in Georgia.

Pushing back the boundaries

Of course, improving the investment climate is not about reducing all costs, all risks, and all barriers. Taxes and regulations support a sound investment climate and protect broader social interests. Managing the tension between creating a favorable investment climate for firms and achieving other social goals is a major challenge for government at all levels.



Source: Smith, Warrick and Mary Hallward-Driemeir. "Understanding the Investment Climate." Finance and Development Magazine. A quarterly publication of the International Monetary Fund. March 2005.

The recommendations covering various areas such as policy, regulatory framework, market access and governance are divided into short-term, medium-term and long-term. The short-term recommendations are those that are doable in two years or less; medium term, 2 to 6 six years; and long-term, over 6 years. However, some reforms can be fast-tracked provided the political economy is favorable.

Table 19. Promoting Private Investments in Agribusiness

Time Frame/ Thrust	Key Lever	By Whom	Indicator of Success/Remarks
SHORT-TERM <2 years			
Enhance world market access	Bilateral fishing agreements	Dept of Foreign Affairs Dept of Agriculture National Tuna Council	- Bilateral agreements signed with Pacific countries: Palau, Papua New Guinea, FS Micronesia and Kiribati. (These will expand raw materials for canned tuna exports).
	Fast track negotiations with Taiwan on export of mango	Bureau of Plant Industry	- Agreement reached. - Export protocol agreed. Main season mangoes from Luzon will have alternative export market beyond Hong Kong, China, Korea, and Japan

	Lobby for higher quota of canned tuna in EU	Dept of Trade and Industry Tuna Canners Ass'n (TCAP)	- Canned tuna quota increased from base of 9,000 tons. (This will enhance job creation in Mindanao)
	Export market promotion	Bureau of Internal Revenue DA	- Memorandum Circular issued that provides tax rebate for export promotion for new entrants in international trade fairs. (Malaysia and Thailand have greater support for export development)
Food quality and safety	Quarantine functions and regulations	DA agencies (BPI, BAI and BFAR)	- Review of Philippine quarantine system - Streamlined provision of quarantine services(a) (These will enhance competitiveness)
Tariff Reforms	Minimize distortions between input and output tariffs	Tariff Commission	- Executive Order (EO) issued on tariff schedules of corn, packaging products, and sugar (These will enhance competitiveness of pork, chicken, and processed foods).
			- EO to tariffy QR on rice (This opens imports to local players)
Governance	Review AFMA	Technical Review Team	- Proposed Amendments to AFMA Law and IRR. AFMA Budget that budgets be allocated according to Major Final Outputs (MFOs). - Increase in proportion of resources allocated to DA core functions dealing with market information and development, safety and quality assurance; and market-linked technology development
Rural Infrastructure	Allocate farm to market roads funds of AFMA under sound economic criteria	Congress DA	- Issuance by DA of criteria for farm roads selection
R & D	Market driven support	DA	- Creation of Competitive Research Grants scheme (a) that targets marketability of agri-food products
Financing	Lending to sound long gestating crops	Land Bank	- LBP Board forms Task Force on Long Term Crops Project to assist regional offices in loan evaluation (This is not a loan allocation scheme. This is to improve loan evaluation capability of regional offices)
Law and Order	Peace initiatives	GOP MILF	- Peace Pact signed and implemented. (Peace is critical to attracting new investors to Mindanao)
Corruption	Improve transparency and accountability Simplify procedures	NG LGU BIR BOC	- Lifestyle checks expanded to top government posts - Number of cases filed against big time tax evaders - Reduction in signatures in government transactions by least half.

MEDIUM TERM 2 to 6 six years			
Market Access	Entry of banana to Australia	DA DTI Industry Association	- Import pest risk analysis completed - Commercial export to Australia (Access difficult due to strong lobby of Australian banana industry)
Regulatory Reforms			
	Repeal Sugar Sharing Law, Coconut Cutting Law, Banana hectarage Limit Law	Congress	- Bills filed in House and Senate - Laws passed (Repeal of Sugar Sharing Law will promote investments in downstream industries)
	Amend CARP Law	Congress	- Bills filed in House and Senate - Amendment passed (This will address transferability concerns for CARPed lands and free land markets)
	Separate regulatory and development functions of NFA from trading function	Congress	- Bills filed in House and Senate to amend NFA charter - Law passed (This will create a more competitive rice market)
	Craft forestry policy on planting of non-timber species in IFMAs	DENR With wood industry ass'n	- DENR AO or MC allowing up to 50 percent of IFMA areas to non-timber species subject to ecological considerations (This will attract investments and diversify agriculture)
	Delineation of production and protection forests	DENR	- DENR Administrative Order or Memorandum Circular\ (Investors will attract investments in the tree plantations and wood industries)
Local Governance	Amend Local Government Code	Congress	- Bills filed in Congress and Senate - Passage of Law Towards clear definitions of the functions and responsibility of LGUs, including extension support - IRR that will capture a devolution strategy and applied across the agriculture, agrarian reform and natural resources agencies along with effective strategies for capacity building and assistance to LGUs and other local institutions
	Pass generic law for farm chemicals	Congress	- Bills filed in House and Congress Law passed (This is similar to generic law on medicines)

LONG-TERM Over 6 years			
Policy			
Improve access to public lands	-Open natural resources to all foreign investors -Revisit the 25 years + 25 years term leases	Constitutional Convention	-Convention or Assembly is called -Amendment to Section 12 of the Constitution is introduced - -Constitution is passed by plebiscite (Foreign investments needed as long-term capital is scarce in the Philippines. Investors also provide markets and technologies)

(a) This is part of the reform package under the ongoing World Bank –supported Diversified Farm Income and Market Development Project

Note: There is need to push for the passage of Bio-ethanol and Co-generation Bills to expand alternative uses of sugarcane and reduce foreign exchange, and safeguard the environment.

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