

Urgent: A road map for agro-industrial development in the Philippines



Philippine Institute for Development Studies

Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Aim and scope

Aim: overview of elements for an industrial policy for agriculture and agribusiness

What to expect:

- A – Agriculture
- B – Business
- C – Convene!

AGRICULTURE

Background: problems of the agricultural sector

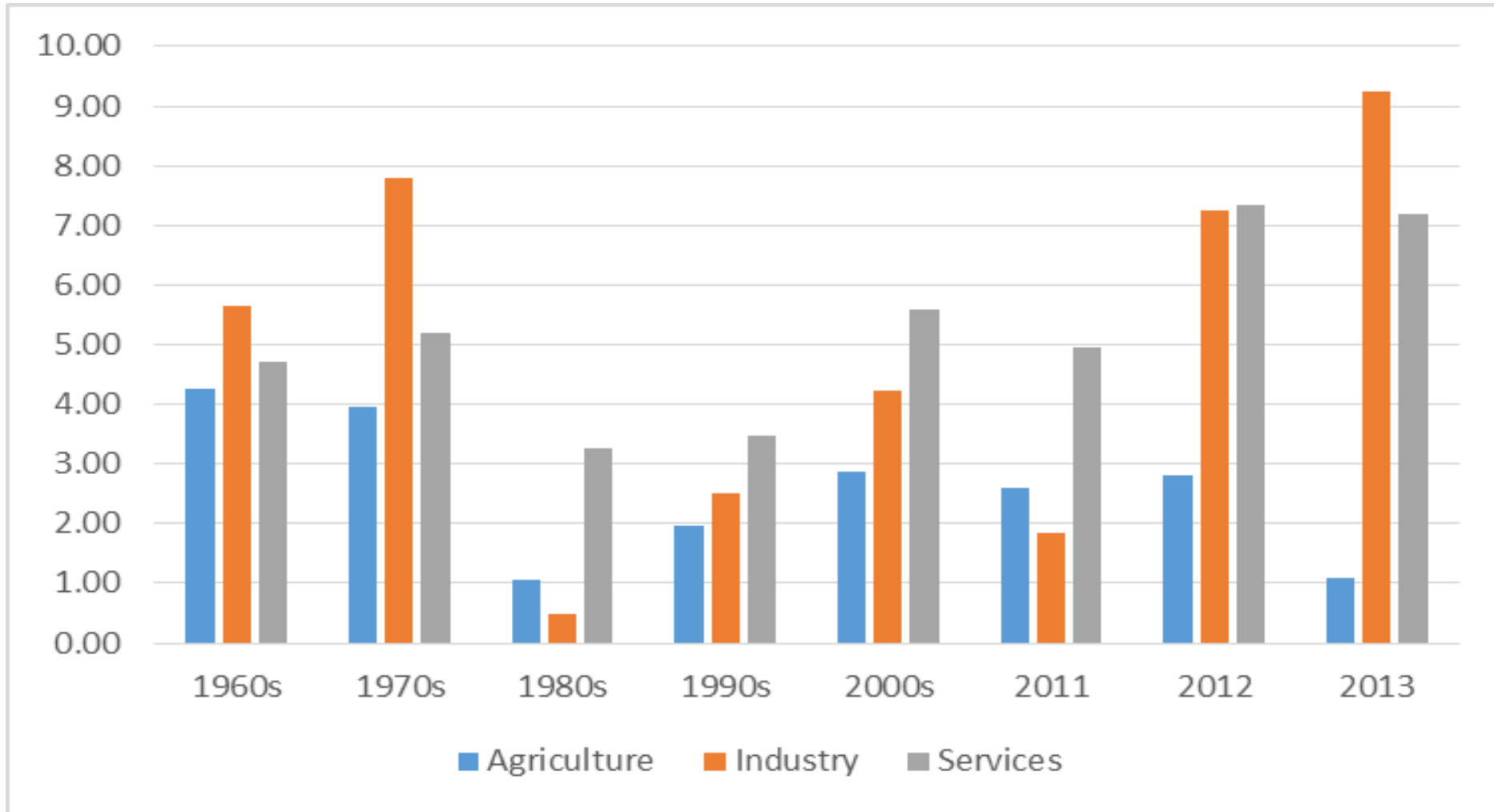
Philippine agriculture: anemic growth, weak diversification and structural transformation

Compared with industry and services, growth in agriculture has been weakest

Period of rapid agricultural growth: 1960s and 1970s

However, growth since the 1980's averaged only at 2.1%, lower than developing Asia and Sub-Saharan Africa

Growth of output per sector in the Philippines (%)



Agricultural Growth of Asian Countries

	1960s	1970s	1980s	1990s	2000s	2011	2012	2013	Average(1981-2013)
Sub-saharan Africa	2.6	3.1	2.6	3.3	2.8	-0.4	7.6	1.0	2.9
Developing Asia	4.0	2.5	3.8	2.4	2.6	2.8	4.0	3.9	3.0
Philippines	4.3	4.1	1.2	2.1	2.9	2.6	2.8	1.1	2.1
China	5.6	2.1	6.3	3.8	4.2	4.3	4.5	4.0	4.7
India	2.5	1.8	3.5	2.8	3.3	5.0	1.4	4.7	3.3
Vietnam	NA	NA	2.7	4.3	3.7	4.0	2.7	2.7	3.7
Indonesia	2.9	4.5	3.7	2.0	3.5	3.4	4.2	3.5	3.1

Agriculture and inclusive growth

Poverty incidence in the Philippines at 25.2%

Among farmers, poverty incidence at 38.3%

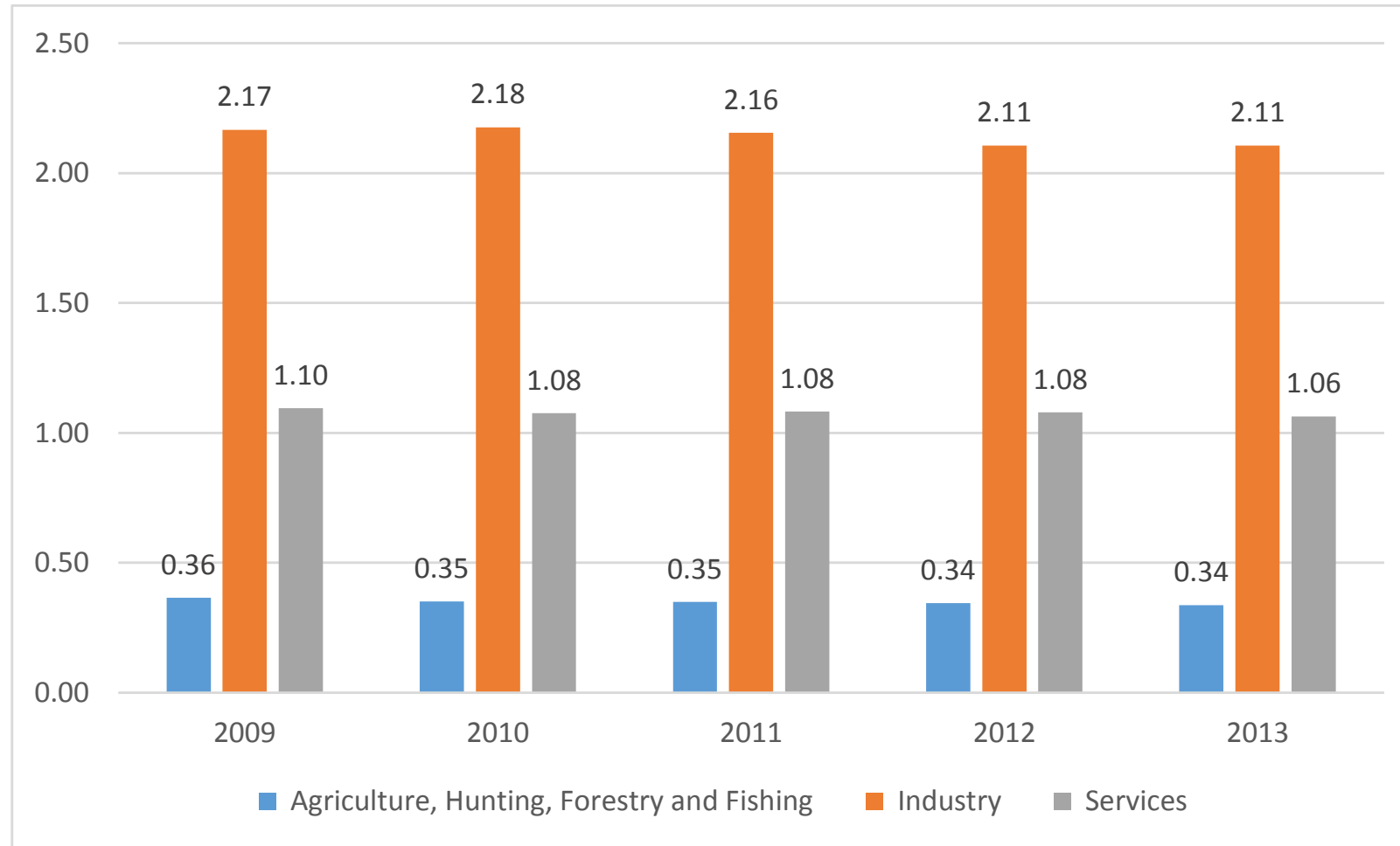
In 2013, the share of agriculture in the GDP was at 11% while employment share was 31%; labor productivity in agriculture lower than in nonagricultural sectors

Employment in agriculture more intensive in unskilled labor

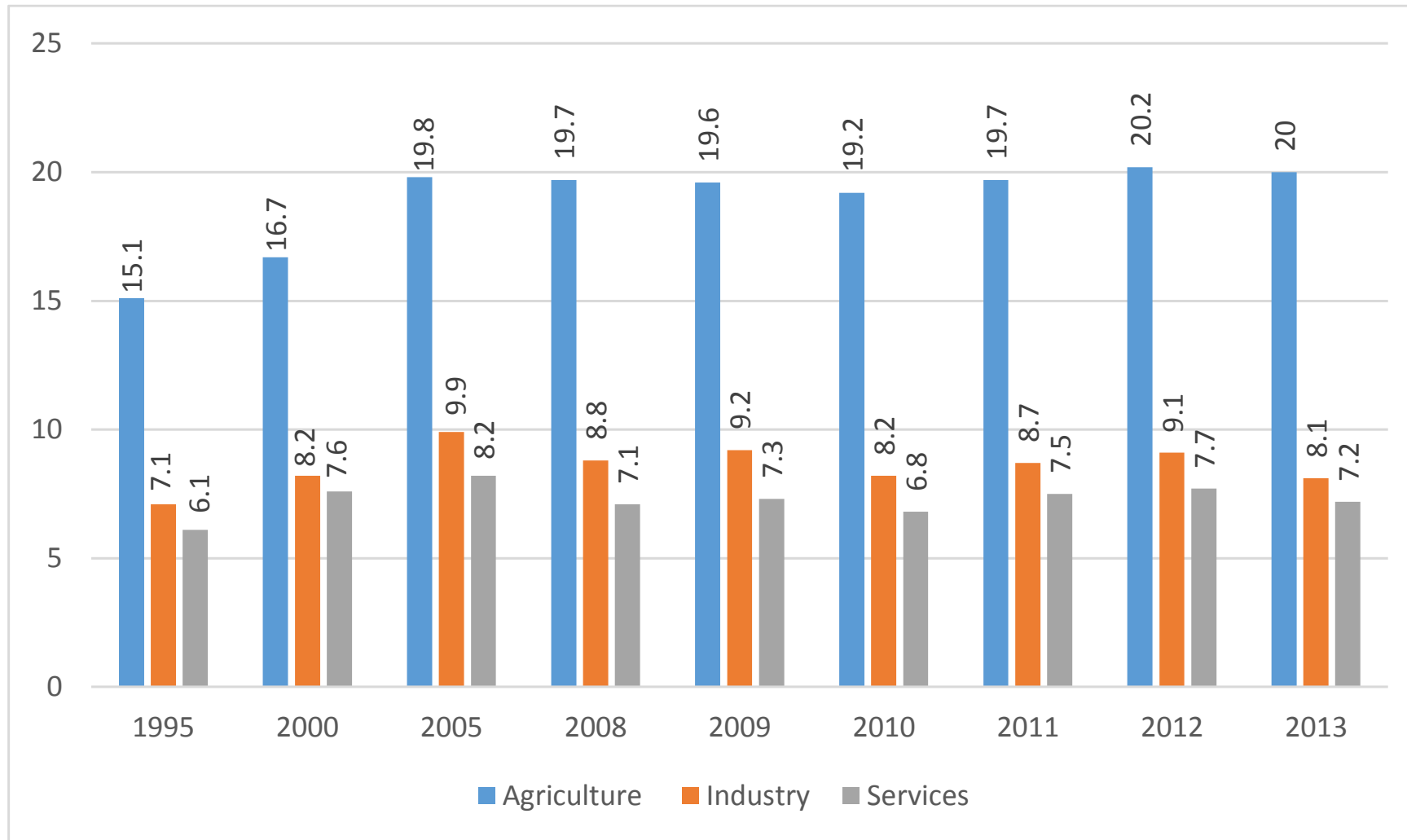
Underemployment is also concentrated in agriculture

Labor Productivity by Sector

(national average = 1.00)

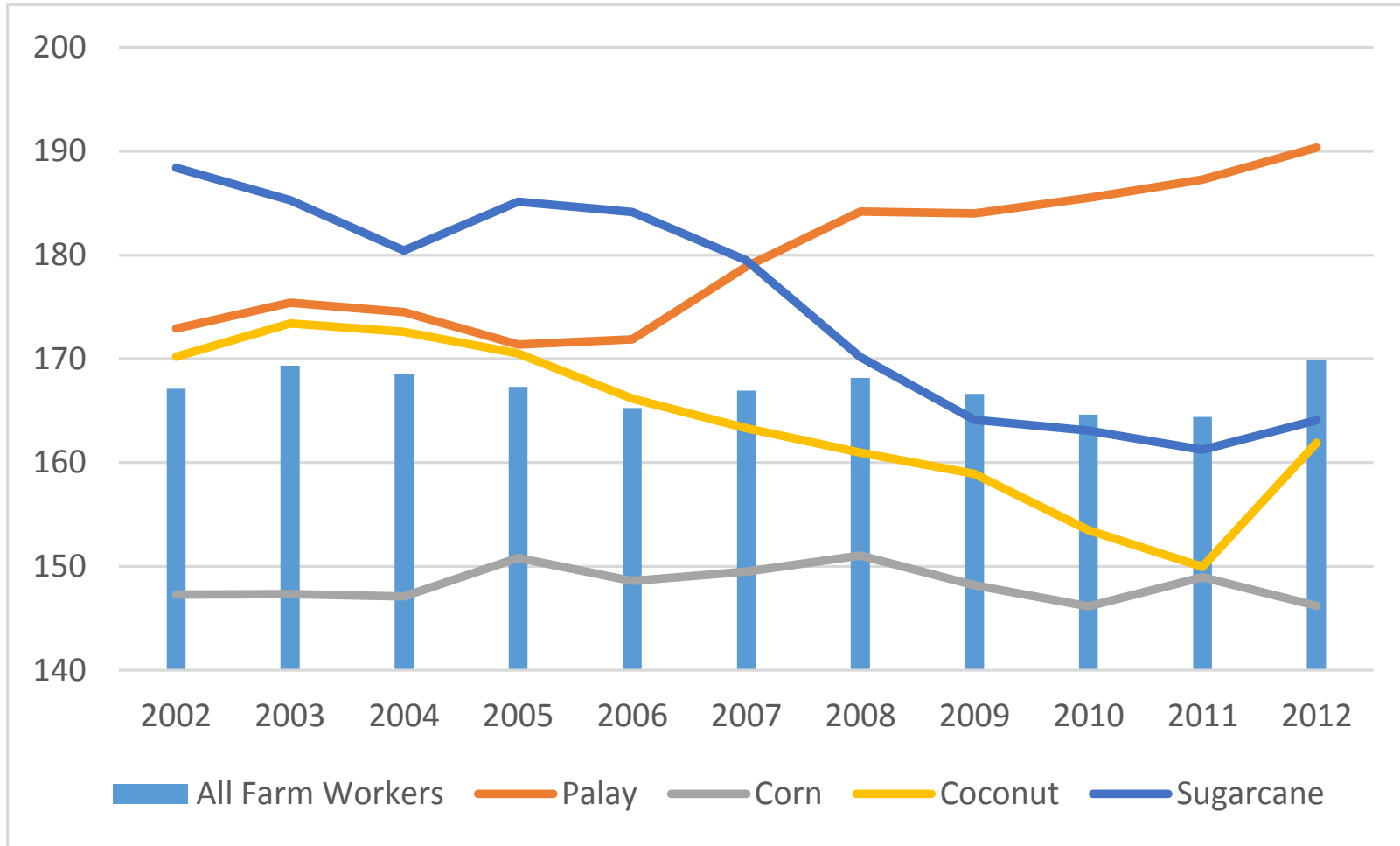


Underemployment per sector (%)



Real wages in agriculture (pesos/day)

(CPI: 2000 = 100)



Real wages in agriculture (pesos/day; CPI: 2000 = 100)

	2002	2007	2012	% growth p.a.
Philippines	167	167	170	0.2
CAR	191	168	180	-0.6
Ilocos Region	199	202	232	1.5
Cagayan Valley	160	178	196	2.1
Central Luzon	220	231	233	0.6
CALABARZON	207	225	213	0.3
MIMAROPA	174	179	178	0.2
Bicol	158	150	153	-0.3
Western Visayas	154	161	157	0.2
Central Visayas	134	145	139	0.4
Eastern Visayas	141	157	145	0.2
Zamboanga Peninsula	148	151	142	-0.4
Northern Mindanao	151	158	145	-0.4
Davao Region	152	151	144	-0.5
SOCCKSARGEN	174	154	152	-1.4
Caraga	185	180	163	-1.3
ARMM	172	164	150	-1.4

Diversification

Accelerating agricultural growth entails:

raising productivity in farming traditional products

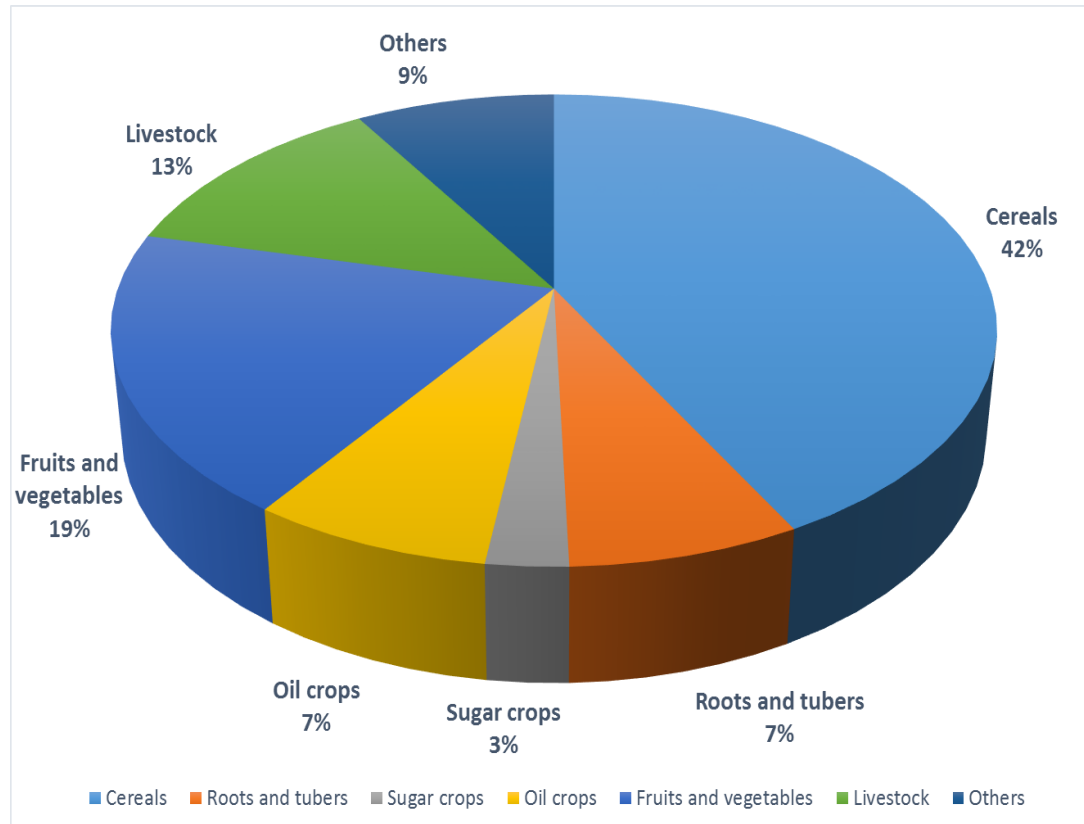
shifting resources toward high value-added products

Comparison of Costs and Returns, 2012

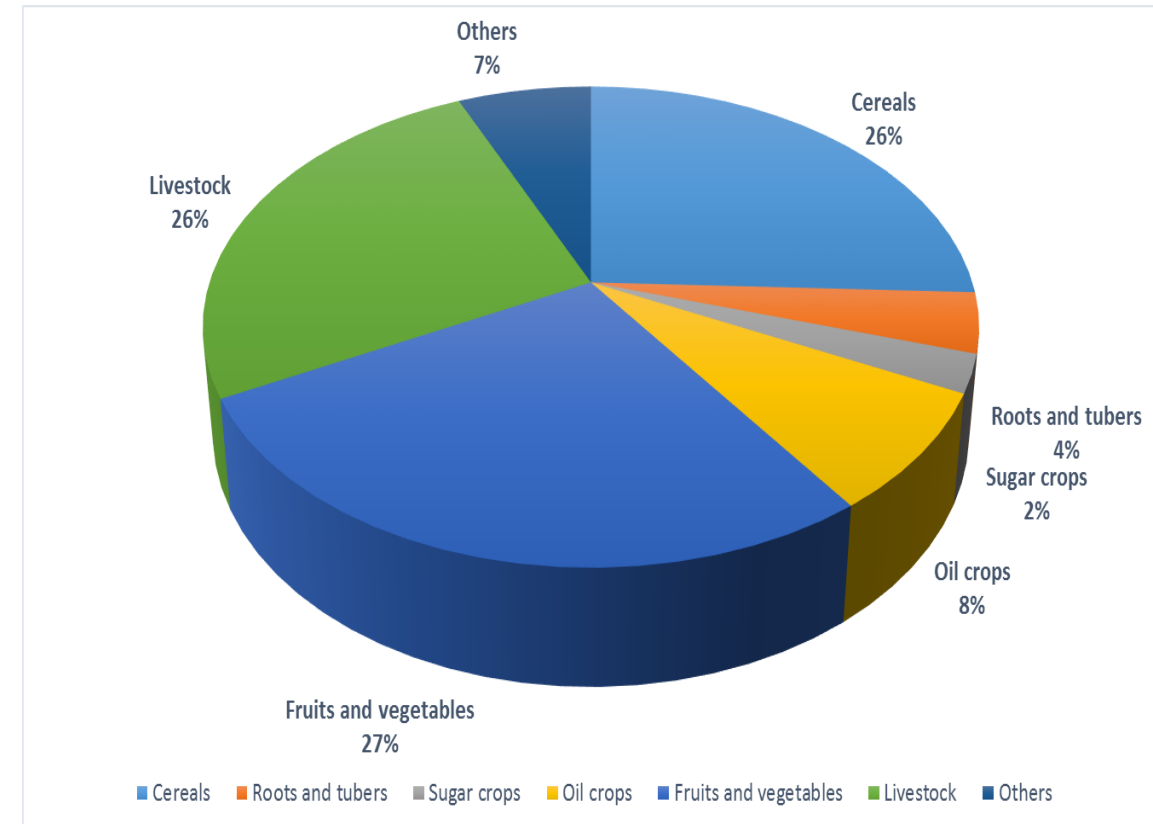
Crop	Farmgate Price (P/kg)	Gross Returns	Net Returns	Labor Cost	Value Added
Palay	16.22	62,366	19,891	11,328	36,801
Corn	12.70	36,271	10,725	9,618	24,406
Vegetables	23.07	288,864	149,207	45,876	212,309
Fruits	20.87	150,095	78,559	20,280	115,003
Coffee	65.79	48,750	19,225	16,546	39,688

Diversification of output in developing Asian Countries

1970

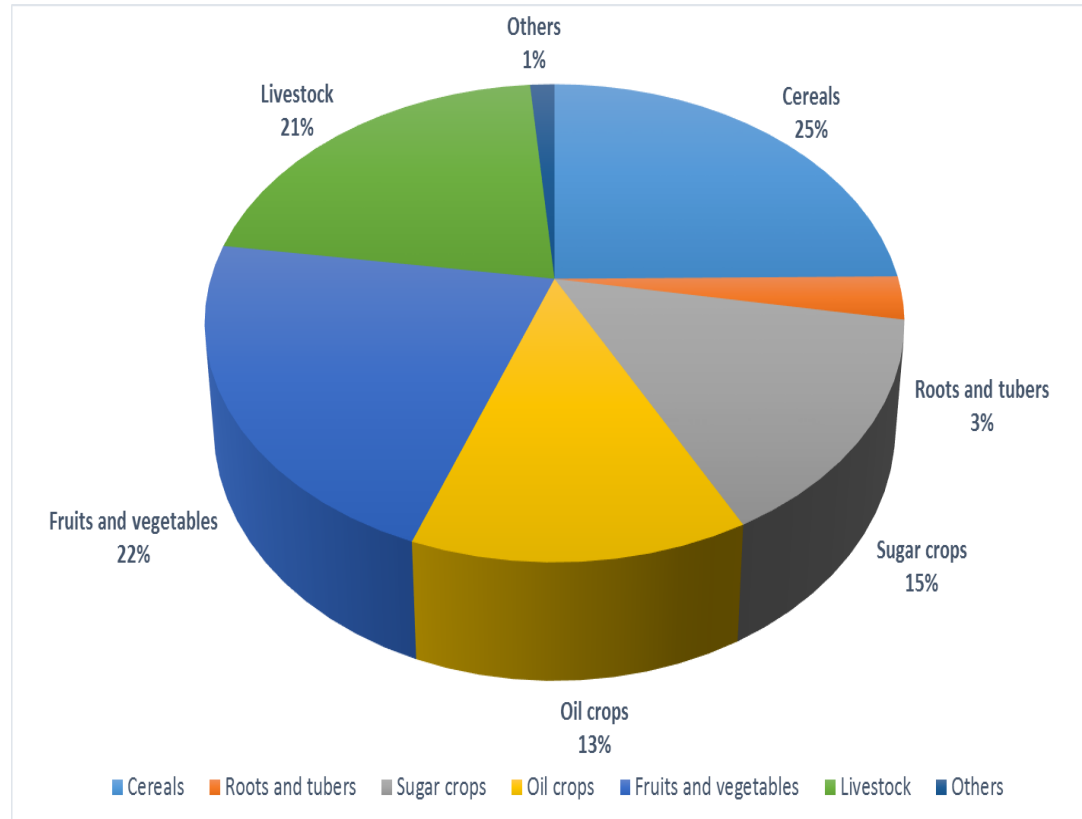


2012

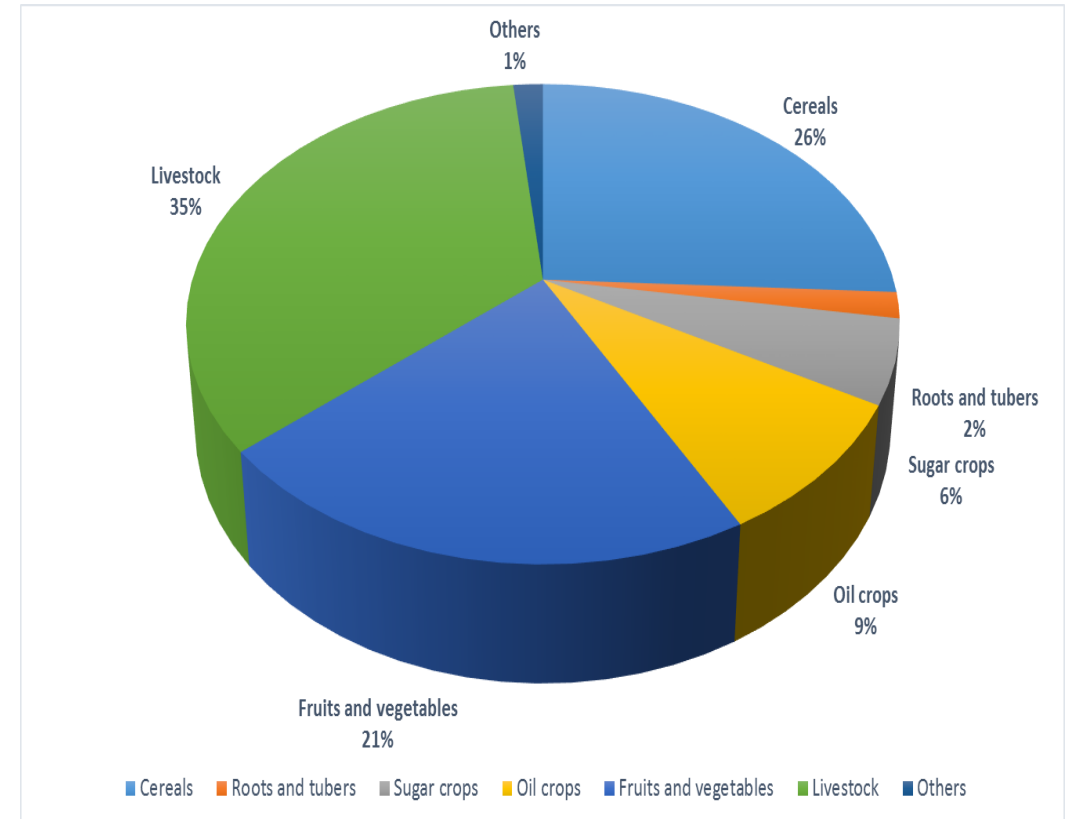


Diversification of agricultural output in the Philippines

1970



2012



Philippines an anomaly: major crops from 1970s remain the same major crops today (rice, maize, coconut, banana, sugarcane)

BUSINESS

Agribusiness

Agricultural development transcends productivity enhancement at the level of primary production, encompassing the agribusiness value chain and based on comparative advantage.

In developing Asia, change in agricultural output occurred within broader diversification – **agribusiness transition**

World Bank (2009) reports shares of agribusiness in GDP for Indonesia and Thailand of 33% and 43%, respectively. For the Philippines, it is only 15% (Balisacan et al, 2011)

Rationale for industrial policy can be extended to agribusiness support.

Structural Transformation

Strongly associated with the formation of diverse and thriving value chains for marketing and processing farm output

Lack of structural transformation in the Philippines could be partly attributed to government failure (wrong, biased policies)

However market failure also impedes transformation

Government intervention still be needed for agricultural transformation

- Provision of public goods
- Coordination

Constraints

Insufficient provision of public goods

- lack of provision of investments in R&D and extension activities
- insufficient allocation to major (e.g. rice, coconut and sugarcane) and high value-added commodities
- inadequate transport infrastructure

Inadequate support for farmers

- lack of: access in technologies, technical knowledge and quality inputs
- Exclusion from formal financial system

Constraints

Coordination failures

- Inaccessibility of markets and inadequate support
- Affects both farmer's engagement and participation of SMEs in the supply chain

Weak regulatory system

- Poor quality of regulatory services
- No comprehensive competition law

Defective property rights regime

- Security of property rights remain dubious in the uplands
- Infirmities in securing titles and transfers deter investments especially long-term projects

Short term agenda

Create a coordination mechanism among stakeholders

- Development of a participatory competitiveness working group for agro-industry on a sector-specific basis and at a local level
- Objective: lay groundwork for competitiveness strategy embodied in a *road map*
- Road maps must include: detailed analysis and prioritization of constraints by importance/urgency

Medium term agenda

Adopt vertical measures

- Increase investments in: R&D, extension systems, irrigation facilities, regulatory systems and transport infrastructure
- Other measures: eco-zones and industrial centres, tax incentives, price stabilization to be reviewed through the coordination mechanism
- Performance-based allocation for government budget and subsidies/incentives

Long term agenda

Adopt horizontal measures

- Introduce secure property rights and an efficient land administration system
- Creation of a regulatory system facilitating business registration and licensing, zoning, contract enforcement and monitoring
- Comprehensive competition policy prohibiting anti-competitive practices

Conclusion

The development of the rural economy is a key factor for achieving inclusive growth

Agricultural development in the Philippine context involves transition from farming to agribusiness

Rural transformation can only be attained through upgrading and restructuring of supply chain to gain competitive advantage in high-value agro-industrial products

Reforms will require multi-stakeholder consultation through the implementation of agribusiness road maps

CONVENE



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