

# Stimulating a Broad-Shared Economic Growth in the Philippines

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# Recent developments

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- Improved fiscal performance
- Positive macroeconomic outlook

But:

- There is little indication of the shared growth
- Job creation remains weak
- Investments are low
- Allocative efficiency of public expenditures remains low



# Agriculture has much to say

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- It contributes to 15% of GDP
- Agriculture + Agribusiness = 40% of GDP
- It employs 40% of labor force
- Agriculture often serves as a social buffer
- Food accounts for 50% of total expenses on average and 60% for 30% poorest



# How to improve competitiveness and contribute to economy-wide growth ?

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1. Shift from inward to outward-oriented policy
2. Improve allocative efficiency of public expenditures
3. Intensify the LAD component of CARP and begin convergence in delivery of support services



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# **I. Shift from inward to outward-oriented policy**



# Direct and total protection of agriculture increased since 1990s

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**1990-1994**

**2000-2004**

1. Direct rate of assistance

Agriculture total

25

30

Importable

36

43

Exportable

-3

-3

2. Rate of assistance to

non-agriculture

9

7

3. Total rate of assistance

16

23

*Source: David et al. (2007).*

# Protection of importables did not change or increase

	<u>1990-1994</u>	<u>2000-2004</u>
Rice	21	51
Corn	63	55
Sugar	49	79
Poultry	57	52
Coconut oil	7	6
Coconut copra	-15	-14

*Source: David et al. (2007).*



# Results of welfare analysis of rice policy (2000-2005)

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- Beneficiaries are rice producers and potentially, budget income from import duties
- Losers are consumers and non-rice producers
- During 2000-2005, net social loss was PhP50b per year, or 1.2% of GDP



# Who are the real losers?

**Table 1: Income loss due to high rice prices across deciles**

	HH rice consumption, kg per year	HH income loss due to high rice prices, PhP per year	Total spending on food, PhP per year	Share of lost food expenditures due to high rice prices, %
I decile	259.2	1,737	18,020	9.6
II decile	414.1	2,775	26,700	10.4
III decile	492.7	3,301	32,575	10.1
IV decile	528.5	3,541	37,780	9.4
V decile	535.4	3,587	43,581	8.2
VI decile	549.7	3,683	50,948	7.2
VII decile	556.1	3,726	58,454	6.4
VIII decile	563.5	3,776	67,624	5.6
IX decile	582.1	3,900	81,643	4.8
X decile	611.9	4,100	115,564	3.5

Note: 1HH rice consumption includes ordinary, first class and NFA rice.

Share of the first class rice increases with increased income. For the first decile it equals 5 percent and for 10th decile it equals 44 percent of total rice consumption.

*Source: Family Income and Expenditure Survey (2003).*



# Who are the real winners?

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- Rice farmers are not homogenous group
- Benefit those farmers who supply rice surplus to the market
- The joint IRRI and PhilRice study reports that 44% of rice are supplied by 20% of rice farmers. Another 23% is supplied by the next 20% of farmers
- 2/3 of benefits are reaped by 40% of rice farmers



# Economy-wide effects

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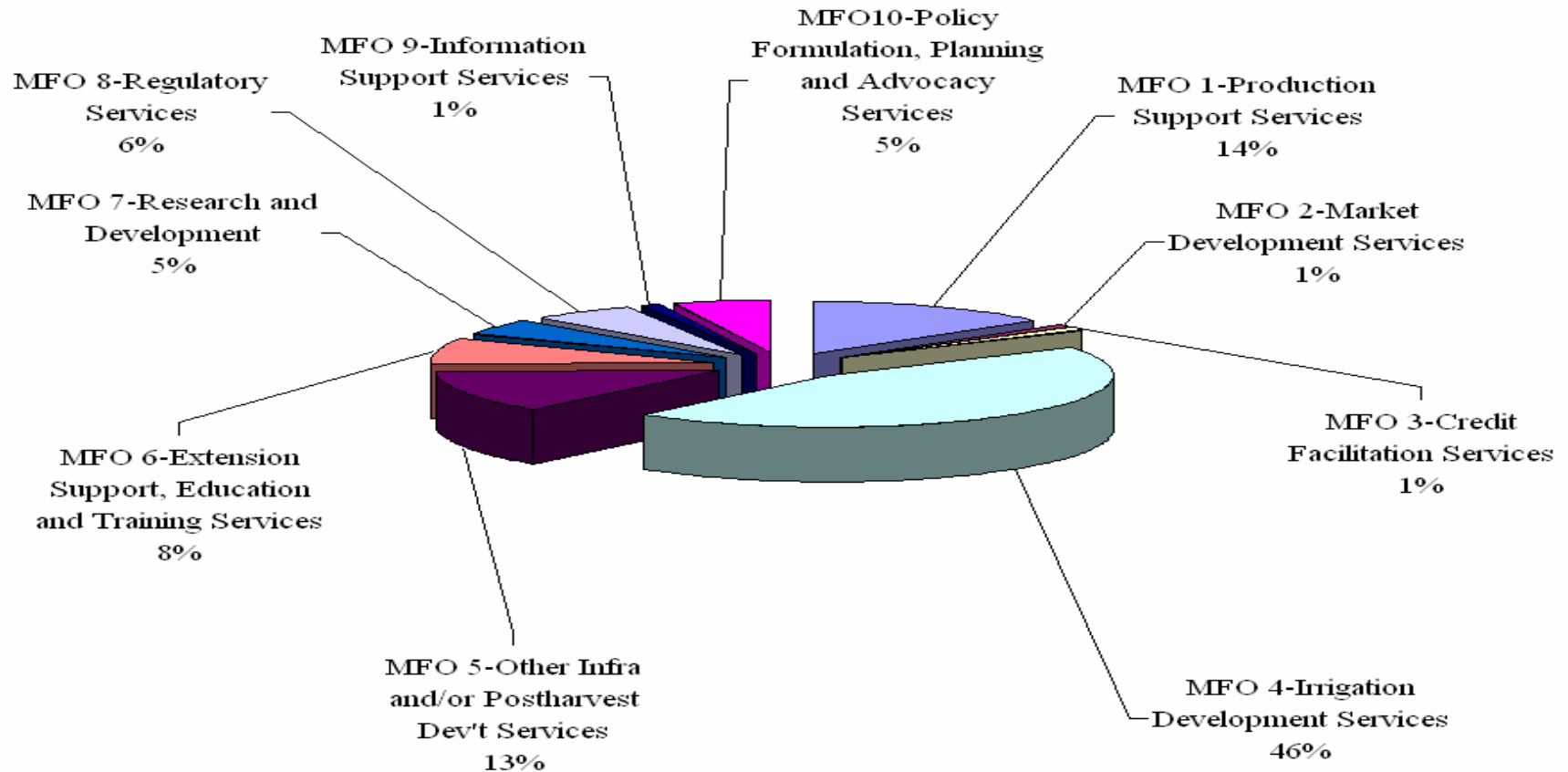
- Lower wage competitiveness, without real benefit
- Depressed domestic consumption
- Hampered crop diversification



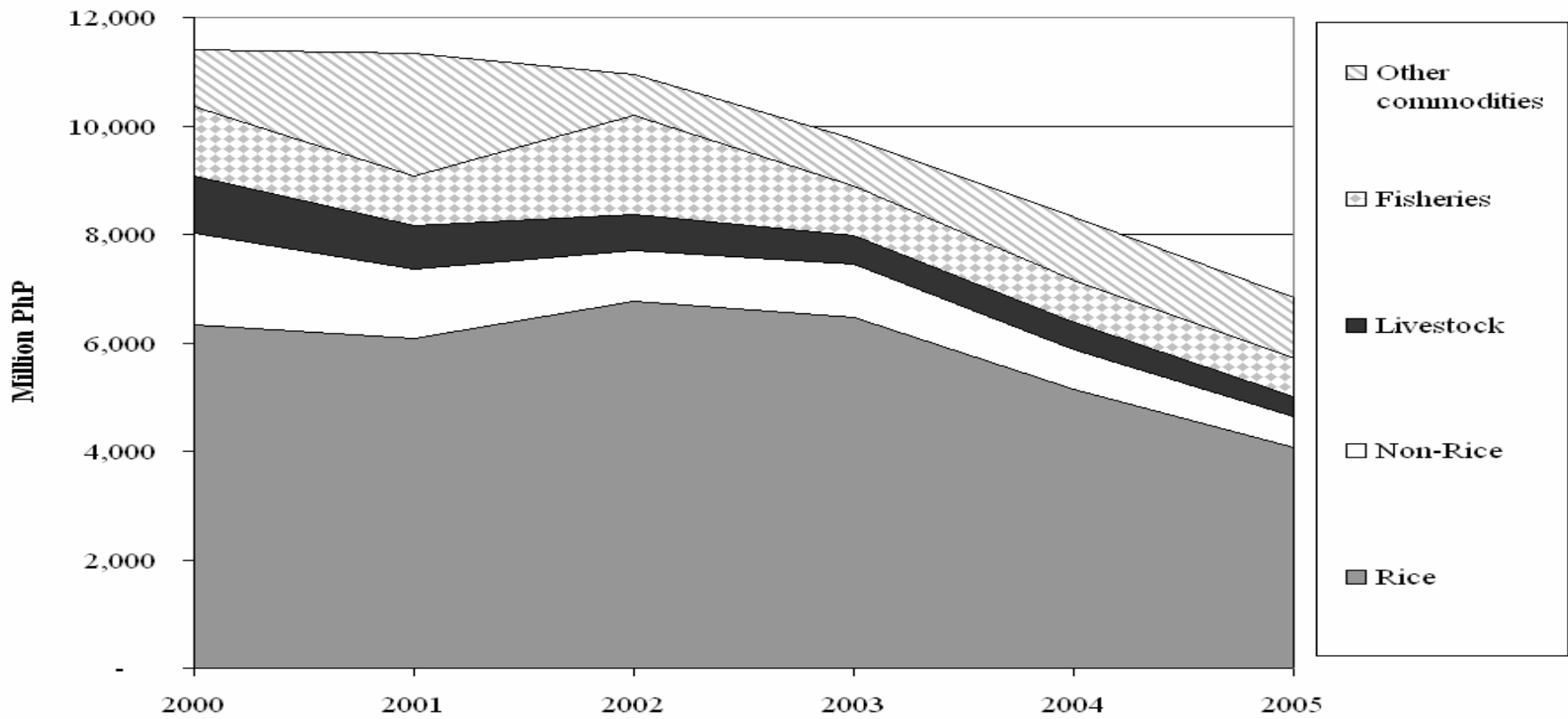
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## **II. Allocative efficiency of public expenditures**

# Composition of public expenditures remains biased to MFO1 and MFO4



# Public expenditures mainly allocated to rice sector



*Note: exclude the costs for personnel*

*Source: DA AFMA budget*



# The DA consolidated budget rose twofold between 1998 and 2005

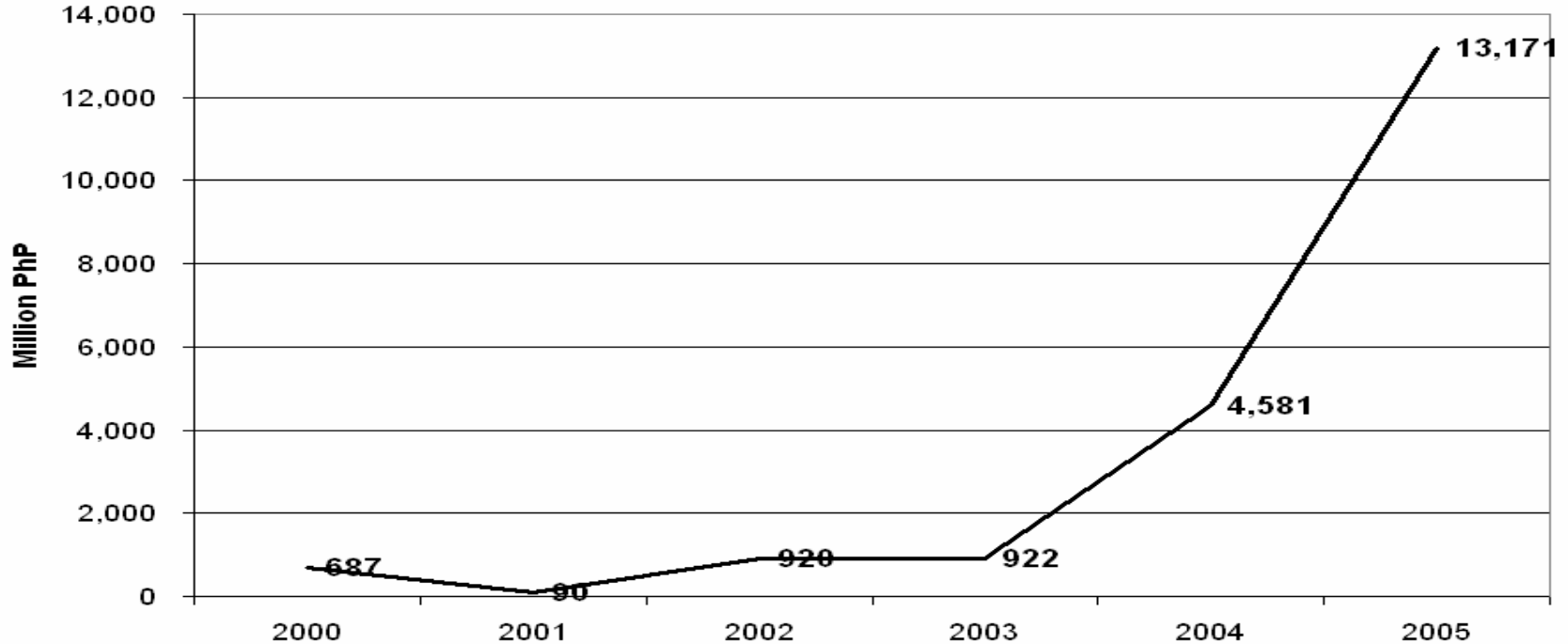
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	<u>1998</u>	<u>2003</u>	<u>2005</u>
OSEC	12.63	11.23	12.50
Agencies	1.24	2.21	3.13
GOCC	2.88	11.36	13.62
<b>Total DA budget (PhPb)</b>	<b>16.75</b>	<b>24.79</b>	<b>30.22</b>

*Source: DBM data: actual financing.*

# DA budget increase is driven by the NFA transfers (GOCC)

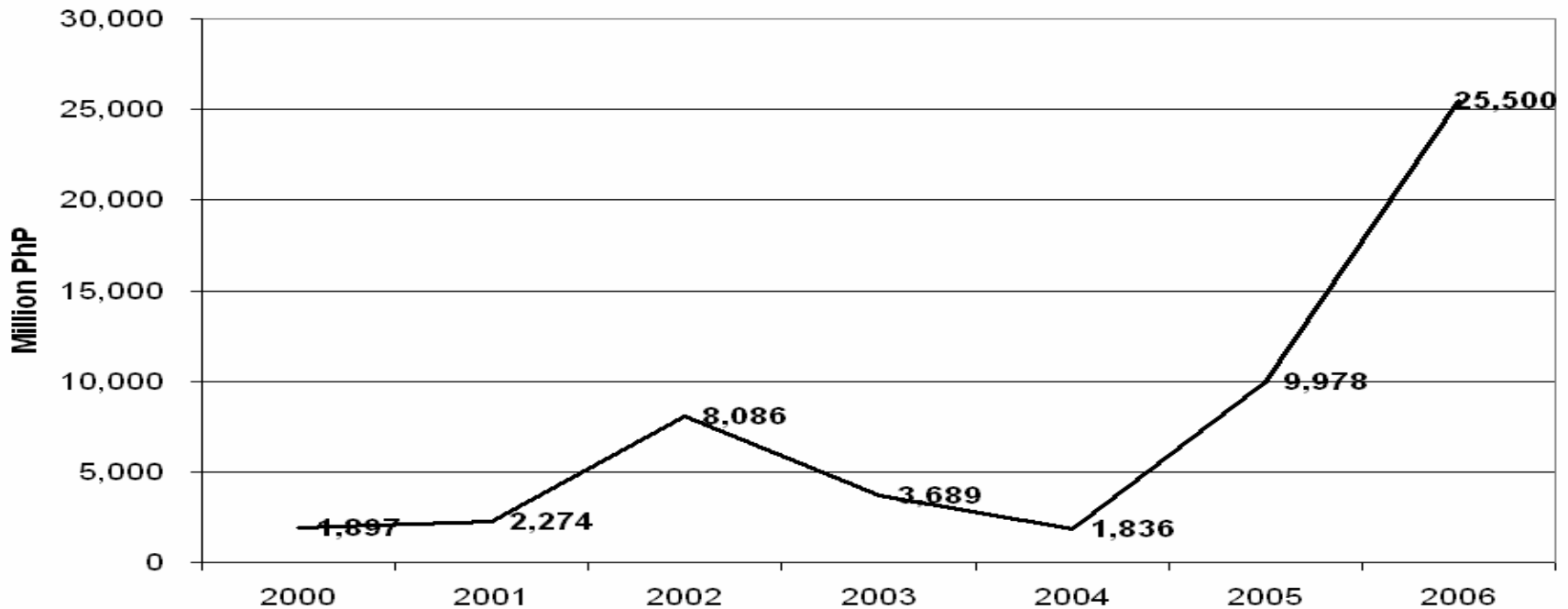
Actual subsidy to NFA from budget



Source: DOF.

# In addition, NFA has incurred the large deficit

NFA deficit



Source: DOF.

# Fiscal costs are huge and raising



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- Share of NFA in total GOCC losses:

2005	44%
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2006	72%
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- Share of NFA costs in GDP:

2005	0.39%
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2006	0.50%
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# Total costs of rice policy between 2000 and 2005

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- Annual net welfare loss – 1.15% of GDP
- Annual budget spending – 0.29% of GDP
- Annual total costs – 1.44% of GDP, or PhP 65.8 billion
  
- Gross contribution of palay – 2.40% of GDP
- Net contribution of palay – 0.96% of GDP

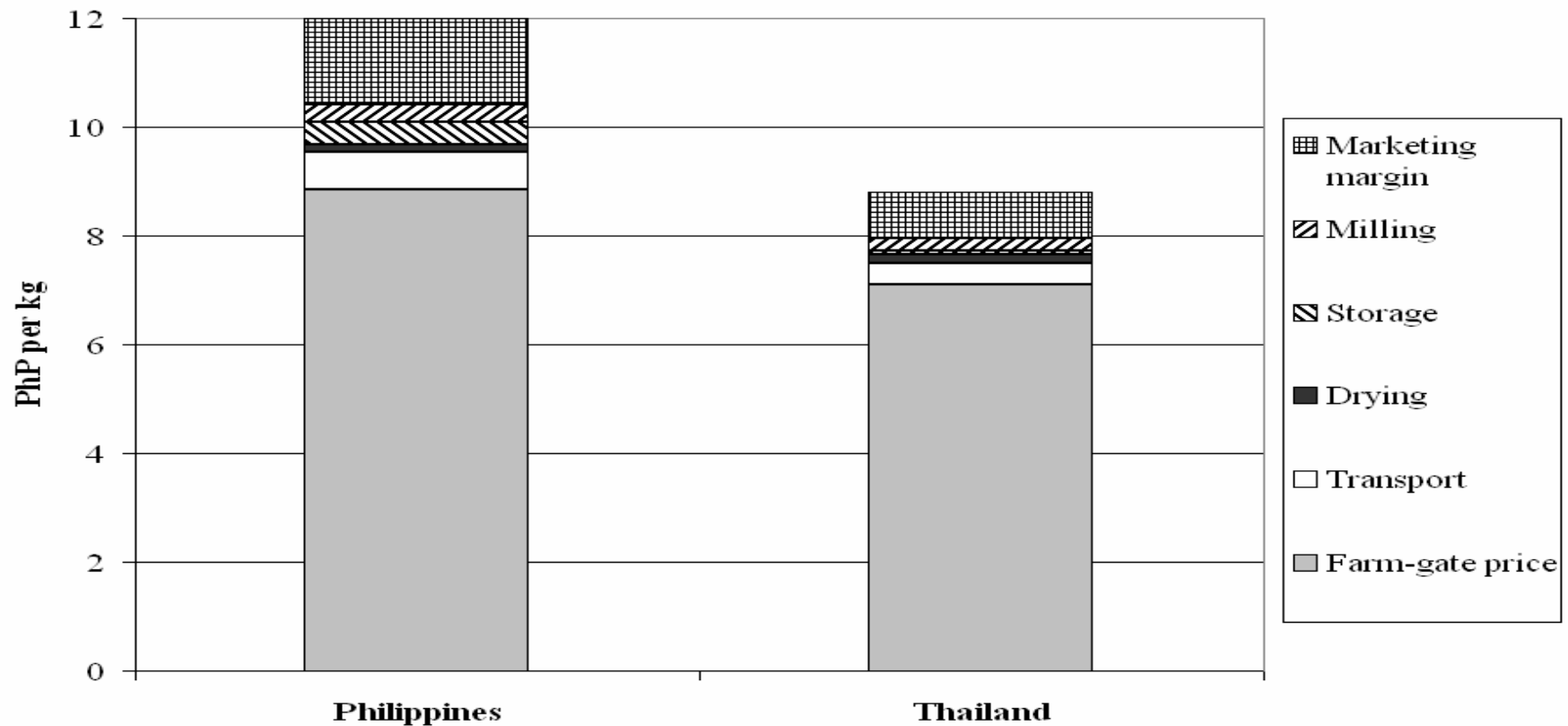


# How to increase farm incomes at lower rice prices?

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- Reduce marketing costs
- Reduce production costs
- Diversify
- Earn off-farm

# Thai farmers generate higher income at lower consumer price





# Main reasons of high marketing costs in the PHP

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- High interest rate and poorly developed financial system
- High requirements for working capital
- High storage costs:
  - Low openness to trade
  - NFA storage facilities
- Infrastructure bottlenecks
- Too many traders



# Joint efforts of trade reform and improved allocation of public expenditures are key to reduce the costs

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- Some costs can be reduced only by means of lower rice prices (working capital requirements and interest rate)
- Others need public investments:
  - Infrastructure
  - Wholesale markets for palay (economy of scale)
  - Farmer cooperatives (economy of scale)
  - Market information system
  - Food standards and grading



# Production costs can also be reduced

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- Wage costs go down along with lower rice prices
- Improved application of nitrogen fertilizers
- R&D and extension, and regulations to promote inbred and hybrid seeds
- Efficient irrigation



# How to balance the NFA financial position?

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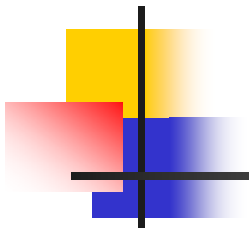
- Change its mandate/do only regulations and buffer emergency stocks
- Reduce import tariff and shift trade functions to private sector
- Improve regulatory functions to reduce marketing costs



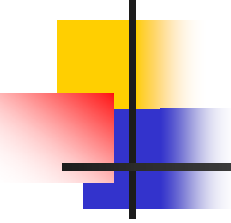
# Medium term strategy for public spending

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1. Comprehensive strategy: trade and budget reforms
2. Increase the share of DA market-related MFOs
3. Make MFO1 transparent and allow only time-bound small subsidies to farmers in remote areas
4. Focus on reasons of high marketing and production costs
5. Irrigation:
  1. Rehabilitate existing systems
  2. Transfer communal systems to irrigator associations
  3. Rationalize the NIA staff
  4. Allow the NIA to focus on national irrigation system
6. Change the NFA mandate and its financing



# III. CARP

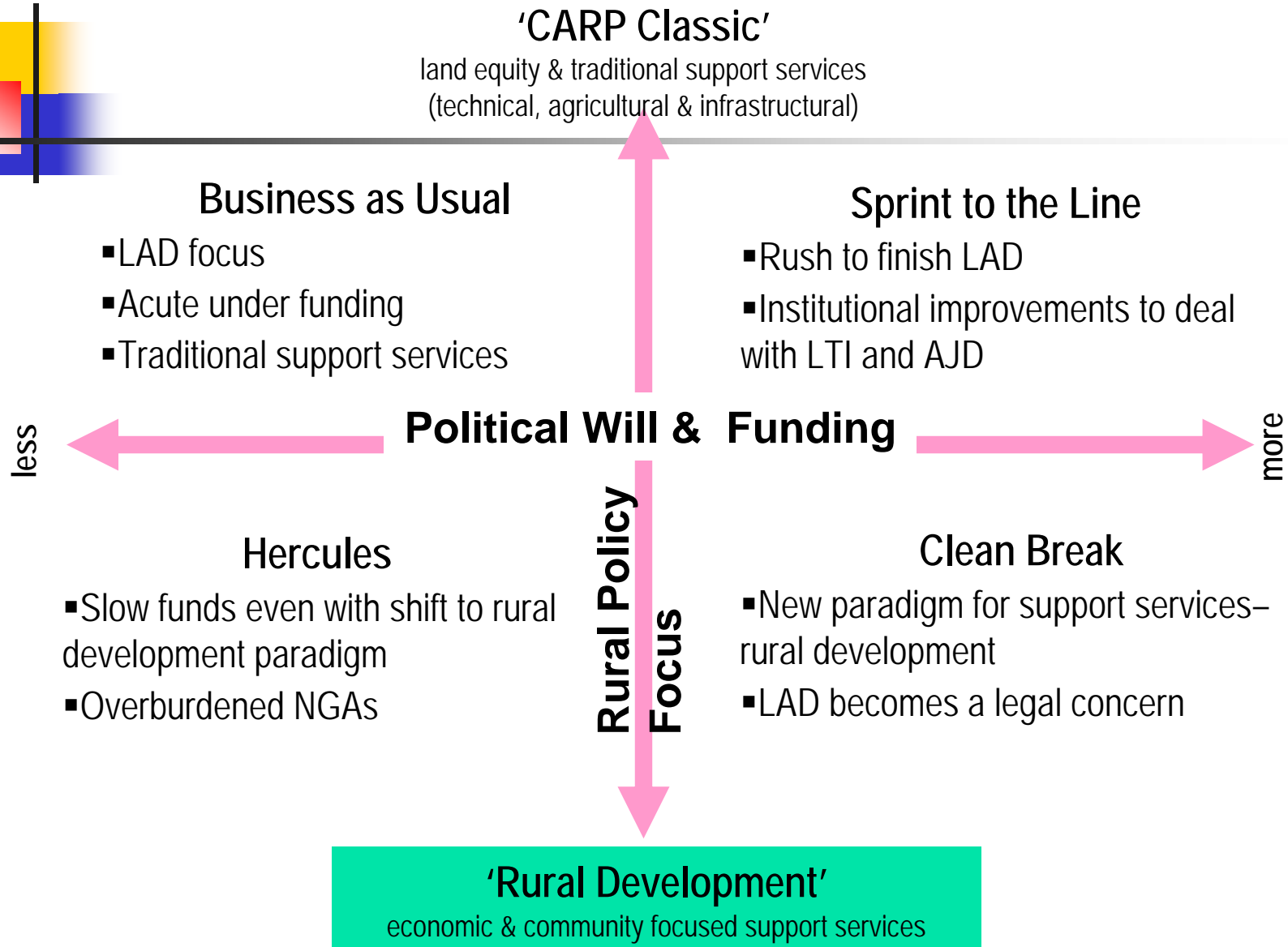


# 2008 is approaching but there are still many pending questions

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- Options from 2006 GTZ report?
- Upward adjustment in private land coverage to 1.6 million ha?
- Sources of finance?
- Conflicting signals for CARP beyond 2008
- Uncertainty has implications for ODA financing and coordination
- Government needs to give a clear signal

# Post-LAD Scenarios





# CARP results to date

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- Agrarian reform beneficiaries are better-off than non-ARBs
- ARC, if well functioning improves incomes and social capital
- Land redistribution has contributed to reduced inequality



# Unfinished CARP has imposed several constraints

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- Reduction in investments and productivity for landowners awaiting completion of CARP processes – or legally contesting the Notice of Coverage
- Land owners in the limbo position were found to be investing less than CARP-compliant landowners (uncertainty effect)
- Once land is “under notice” – and the process takes long - lands generally lose value and productivity
- Lands tied-up also tended to suffer increased illegal land conversions
- Crop diversification remains low



# Improved allocative efficiency of public spending...

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- DAR needs to focus on LAD acceleration
- Funds matter
- But institutional hurdles should be also eased
- Increased finance and staffing for adjudication and justice delivery
- Detailed list of proposals come from GTZ study



# Convergence in delivery of public services

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- Current ARC programs have positive but localized effects
- DAR should strategically help the ARCs in areas where there are no other providers and with prior commitments
- Strengthen partnerships for implementation of PBD with other agencies – DENR/DA/LGUs etc
- Design and implement the exit strategy– through building capacity in LGUs and communities to implement support services – accelerated in areas with strong LGUs and geographic overlaps with other departments



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**Do not underestimate the  
agriculture's contribution to  
broad-shared growth**



# Issues for Agenda

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- Trade reform (reduction in import protection)
- Increased allocation of DA budget to market-related MFOs financed by freeing resources from production support and NFA financing
- Intensification of LAD
- Convergence in delivery of public services



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**Thank you for attention!**