

## SECTOR ASSESSMENT (SUMMARY): AGRICULTURE, NATURAL RESOURCES, AND RURAL DEVELOPMENT

### Sector Road Map

#### 1. Sector Performance, Problems, and Opportunities

1. **Stagnant agricultural sector growth.** The Philippines has achieved robust economic growth since 2000. The economy strongly rebounded after the 2008–2009 global financial crisis, posting a 6.4% average annual economic growth rate from 2010 to 2019.<sup>1</sup> The agriculture sector, however, has lagged behind other Association of Southeast Asian Nations (ASEAN) countries; the sector grew by an annual average of only 1.39% during 2009–2018.<sup>2</sup> The sector's low productivity has been the result of decades of underinvestment (or misdirected investment in some cases); policy distortions; uncertainties linked with the implementation of agrarian reform; and more frequent extreme weather events such as typhoons, heavy rains, and droughts.<sup>3</sup> Despite the poor sector performance, agriculture remains the livelihood of many rural families, accounting for one-fourth of total employment.

2. **Untapped economic potential.** The agriculture sector has huge untapped potential. The main agricultural crops are rice, corn, coconut, sugarcane, banana, pineapple, coffee, mango, and tobacco. Three of them (rice, corn, and coconut) account for more than 50% of the total area harvested and it has only been in the last five years that higher-value crops have been given more attention. In general, low value addition, limited diversification, and low productivity are the persistent challenges constraining agricultural transformation in the country.

#### a. Trade Policy and Regulatory Reforms

3. **Quantitative restrictions on rice imports.** In 1995, when the country joined the World Trade Organization (WTO), the Philippines secured a special treatment which allowed the country to retain quantitative restrictions on rice importation for an initial 10 years until 2005, which was subsequently extended to 2012, and further until 2017. There are two major implications of the delayed removal of quantitative restrictions: (i) high domestic rice prices, and (ii) high cost of National Food Authority (NFA) operation. Both have resulted in substantial burden for consumers and taxpayers.

4. **Substantial National Food Authority debt.** The state-owned NFA performed both regulatory and proprietary functions in the rice market. It ensured that the rice paddy prices received by farmers provided reasonable income levels ("buy high" policy) while at the same time extending affordable rice prices to consumers ("sell low" policy). Its "buy high-sell low" policy was sustained through quantitative restrictions and the NFA's monopsony role in the external trading of rice through its function of issuing import permits. NFA's liabilities amounted to ₱169.7 billion in 2017, or 1.1% of GDP which had considerable national budgetary implications.<sup>4</sup>

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<sup>1</sup> Philippine Statistics Authority. <https://psa.gov.ph/national-accounts>. Manila (accessed 25 June 2020).

<sup>2</sup> Government of the Philippines, Philippine Statistics Authority. Selected Statistics on Agriculture. Manila (3 years: 2013, 2015, and 2019).

<sup>3</sup> Organisation for Economic Co-operation and Development. 2017. [Agricultural Policies in the Philippines](#). Paris.

<sup>4</sup> Government of the Philippines, Development Budget Coordination Committee. 2019. [Fiscal Risks Statement 2020](#). Manila.

5. **Enactment of the Rice Tariffication Law.** To comply with WTO commitment, the government enacted the Rice Tariffication Law (RTL) in February 2019, replacing quantitative restrictions with tariffs on rice imports and removing interventions by the government in the rice market. The sudden exposure of the Philippine rice sector to international rice market competition resulted in substantial declines in domestic rice prices, with retail prices dropping by 7%–10% and farmgate prices dropping by 21% in 2019.<sup>5</sup> All rice consumers have benefited from the RTL, particularly poor households who spend a significant portion of their budget on rice. The lifting of quantitative restrictions on rice and entry of more imports, however, have affected about 2 million rice farmers, particularly smallholders. In view of this, the government has responded with various assistance programs to help affected rice farmers during the transition.

6. **Rice sector productivity increase—imperative for successful implementation of the Rice Tariffication Law.** The Philippine agriculture sector is at a crossroads. The government's strategic support for the rice sector, crop diversification, and the commercialization of agriculture needs to be pursued in a holistic manner. One of the key provisions of the RTL is to enhance competitiveness of the domestic rice sector through a time-bound financing mechanism called the Rice Competitive Enhancement Fund (RCEF). During 2019–2024, the RCEF with a ₱10 billion annual appropriation from tariff revenue of rice imports, will finance four programs: (i) rice farm machineries and equipment (₱5 billion); (ii) rice seed development, propagation, and promotion (₱3 billion); (iii) expanded rice credit assistance (₱1 billion); and (iv) rice extension services (₱1 billion). Tariff revenues in excess of ₱10 billion will support following areas: (i) direct financial assistance to rice farmers, (ii) titling of agriculture rice lands, (iii) crop insurance, and (iv) productivity-enhancement programs for rice farmers seeking to diversify to other crops. By the end of 2019, the government had already generated ₱12.3 billion revenues from the RTL.<sup>6</sup>

7. **Trade facilitation for agricultural products.** In late 2019, the Department of Finance, the Department of Information and Communications Technology, and the Department of Agriculture rolled out the government's online trading facilitation portal (TradeNet).<sup>7</sup> It aims to connect all 75 trade regulatory government agencies across 18 government departments and to process permits for imports and exports of various goods, including agricultural products such as rice. It is expected that electronic certificate of origin applications from ASEAN members are streamlined into TradeNET. Initially, about 900 agricultural products will be covered under the simplified import and export documentary processes.

## **b. Public Services to the Agriculture Sector**

8. **Incomplete land reform and insecure land tenure.** Insecurity of land tenure in rural areas limits on-farm investment and undermines the economic benefits of land reforms. In 1988, the Philippines initiated the Comprehensive Agrarian Reform Program that covered almost three-quarters of the country's total agricultural land.<sup>8</sup> By the end of 2015, redistribution of land was almost complete, but property rights and intergenerational land transfer arrangements remain to be resolved. The Department of Agrarian Reform issued guidelines and procedures on

<sup>5</sup> Government of the Philippines, Philippine Statistics Authority. 2019. [Updates on Palay, Rice and Corn Prices](#). Manila. (6 months: February – July 2019)

<sup>6</sup> Government of the Philippines, Department of Finance. 2020. [Rice tariffication a gamechanger in 2019](#). News release. 10 January.

<sup>7</sup> Government of the Philippines, Department of Finance. 2019. [DOF, DICT working with DA on TradeNet rollout](#). News release. 4 October.

<sup>8</sup> According to the Philippine Statistics Authority, arable land totals 5.425 million ha; 60% of farms have landholdings of less than 1 ha, 18% of 1 ha–3 ha, and 32% of 3 ha–7 ha.

the parcellation of collective certificates of land ownership award landholdings to stabilize ownership, tenure, and control of the lands awarded to agrarian reform beneficiaries. In addition, the government approved in February 2019 the Agricultural Free Patent Reform Act, which removed restrictions on (i) the sale and mortgaging of the land within the first 5 years of the patent grants and (ii) corporations, associations, or partnerships acquiring or owning land.

**9. Inadequate planning and management of irrigation and water resources development.** Irrigation is crucial for the productivity and stability of crop production. However, as of 2018, only 61% of the total irrigable area of about 3.13 million hectares (ha) nationwide was provided with irrigation facilities.<sup>9</sup> Limited irrigation coverage is attributed to many factors, including inadequate planning and resources, delayed fund releases, law and order problems, and right-of-way issues hampering project implementation. Low efficiency is another problem with irrigation services. About 20% of irrigation service areas do not receive water because of dysfunctional and aging infrastructure, resulting in considerable loss of opportunities for increased productivity. Many canal networks and structures have high water losses and poor operational efficiency because of inappropriate designs, improper planning, inappropriate technologies, inadequate operation and maintenance, and aging.

**10. Public agricultural extension.** Extension delivery is increasingly hampered by the country's fragmented delivery structure. The agricultural extension system and its financing suffers particularly from lack of coordination between the Department of Agriculture and local government units, which assume responsibility for farm level agricultural extension activities along with decentralization incentives. The lack of coordination largely stems from the limited outreach of the Department of Agriculture, which has regional but not local field offices, unlike some other departments such as the Department of Trade and Industry.

### **c. Social Protection to Rural Families**

**11. Protecting affected rice farmers.** In November 2019, the Department of Finance announced that ₱3 billion in excess of the ₱10 billion tariff revenue from rice imports will be used to fund a 2-year unconditional cash transfer program for smallholder farmers affected by falling rice prices, with an additional ₱3 billion to be given in 2020.<sup>10</sup> The scheme is intended for the most affected smallholder rice farmers in 33 provinces. Farmers with less than 2 ha of rice fields are expected to receive a one-time payment of ₱5,000 each to cover input costs such as seeds, fertilizer, and fuel. Focus is also given to female farmers, as economic opportunities for women are constrained by limited access to land and other inputs. Women own less land than men and are disadvantaged through inheritance norms, laws, land titling systems, and limited capability to purchase land. Also, women do not have equal access to extension and irrigation services.

**12.** In 2019, the Agricultural Credit Policy Council established the Expanded Survival and Recovery Assistance Program for Rice Farmers to provide interest-free loans to small rice farmers (1 ha or less) and secured ₱2.5 billion in the 2020 General Appropriations Act for this purpose. The program will be implemented by the Land Bank of the Philippines. The aim is to give farmers immediate relief to soften the impact of lower rice prices and to help rice farmers regain their capacity to continue their production.

<sup>9</sup> Government of the Philippines, Philippine Statistics Authority. 2018. [Selected Statistics on Agriculture 2018](#). Manila.

<sup>10</sup> The production cost of rice (per kilogram) is about ₱12.41, with a net profit of ₱4.78.

13. **Sector response to COVID-19.** The COVID-19 pandemic has disrupted the economy's growth momentum with a contraction seen in 2020, the first since the 1998 Asian financial crisis. ADB estimates GDP to contract by 3.8% in 2020, while the government projects a contraction of 2% to 3.4%. The government has rolled out major economic stimulus packages and has expanded social protection programs. The Department of Agriculture has requested a ₱31 billion supplementary fund to immediately mobilize support to farmers and other players in the food value chain.<sup>11</sup> To ensure countrywide food security, the government's Inter-Agency Task Force for the Management of Emerging Infectious Diseases has recommended importing 300,000 metric tons of rice. On the consumer side, the Department of Agriculture is imposing a suggested retail price for selected agriculture and fishery products. A task force is regularly monitoring key primary agri-fishery commodities to protect consumers against hoarding, profiteering, and manipulation of supply and retail prices.<sup>12</sup>

## 2. Government's Agriculture Sector Strategy

14. The sluggish sector performance stems largely from the previous policy focus on rice self-sufficiency. This policy direction has driven a range of policy and other measures for rice production while support was limited for agricultural diversification and commercialization. The protective rice trade policy has disincentivized the rice sector to become competitive since 2000.

15. The Philippine Development Plan, 2017–2022<sup>13</sup> is the first medium-term plan to operationalize the high-level strategic framework *AmBisyon Natin* (Our Long-Term Vision) 2040. The plan has five key priorities: (i) accelerating human capital development; (ii) expanding economic opportunities in agriculture, fisheries, and forestry; (iii) ensuring ecological integrity, as well as a clean and healthy environment; (iv) reducing vulnerability of individuals and families; and (v) attaining just and lasting peace.

16. The Agriculture and Fisheries Modernization Act of 1997 laid the framework for the agriculture sector, poverty alleviation and social equity, food security, rational use of resources, global competitiveness, sustainable development, and protection from unfair competition. The Food Staples Sufficiency Program, 2011–2016 promoted a strong focus on rice and other staples such as white corn, banana, cassava, and sweet potato, shifting emphasis from input subsidies toward public services such as extension and infrastructure (e.g., farm-to-market roads). The Food Safety Act 2013 aims to unify food safety regulations in the country and presents an opportunity to revolutionize the food system, improve consumer health, and increase acceptability of Philippine food products worldwide.

17. The RTL removed intervention by the government in the rice market, and shifted to a pure tariff system with the following rates: 35% tariff on rice imports coming from ASEAN member states; 40% tariff for imports outside ASEAN and within the minimum access volume (MAV) of 350,000 metric tonnes; and 180% tariff for imports outside ASEAN and above MAV. The RTL also created the RCEF to finance various programs to enhance competitiveness of the domestic rice sector using rice import tariff revenue. The implementing rules and regulations of four

<sup>11</sup> Government of the Philippines, Department of Agriculture. 2020. [DA to set in motion ALPAS COVID-19 to ease the threat of hunger](#). News release. 25 March.

<sup>12</sup> Government of the Philippines, Department of Agriculture. 2020. [DA sets SRP for pork, chicken, fish, sugar, garlic, onions](#). News release. 21 February.

<sup>13</sup> Government of the Philippines, National Economic and Development Authority. 2017. [Philippine Development Plan, 2017–2022](#). Manila.

primary RCEF-funded programs were prepared. The Philippine Rice Industry Roadmap 2030 aims at improved competitiveness, enhanced resiliency to disasters and climate risks, and ensured access to safe and nutritious rice.<sup>14</sup> The roadmap pursues strategic support for selected provinces that can be productive in rice while promoting crop diversification in other provinces.

18. The National Framework Strategy on Climate Change, 2010–2022 and the National Climate Change Action Plan, 2011–2028 are the two main documents outlining climate change adaptation priorities in the country. The aim for agriculture is to “enhance climate change resilience of agriculture and fisheries production and distribution systems.”<sup>15</sup>

19. The Philippine Plan of Action for Nutrition, 2017–2022<sup>16</sup> is an integral part of the Philippine Development Plan. Among others, it consists of eight nutrition-specific programs to address the immediate causes of malnutrition: inadequate food and nutrient intake, poor caregiving and parenting practices, and infectious diseases.

### **3. ADB Sector Experience and Assistance Program**

20. During 1968–2018, ADB made 178 public sector loans to the Philippines totaling \$18.23 billion and provided 454 technical assistance (TA) projects totaling \$282.3 million. During this period, 60 loans were made to various projects in the agriculture, natural resources, and rural development (ANR) sector totaling \$2.01 billion (11% of total Philippine loan value) and 124 TA projects were provided totaling \$18.65 million (18% of total Philippine TA value).<sup>17</sup> ADB’s operations have covered irrigation development, water resources management, agriculture, fisheries, livestock, rural water supply, and rural roads (many of which were in Mindanao).

21. In 2003, following the government’s decision to cancel the Grains Sector Development Program, ADB’s operations in the ANR sector in the Philippines decreased significantly. Prior to 2003, the ANR sector was one of the key areas of ADB assistance, but during 2003–2018 only 10% of loans and 17% of TA projects by value were approved in the sector. During preparation of ADB’s country partnership strategy for the Philippines, 2018–2023, the government requested ADB to actively reengage in ANR sector operations. The Integrated Flood Risk Management Sector Project (for approval in 2021), Mindanao Irrigation Development Project (for approval in 2021), and Mindanao Agro-Enterprise Development Project (for approval in 2022) will serve as the first batch in ADB’s renewed engagement with the government in the ANR sector.

<sup>14</sup> Department of Agriculture. 2018. [The Philippine Rice Industry Roadmap 2030](#). Quezon City, Philippines.

<sup>15</sup> Climate Change Commission. [National Framework Strategy on Climate Change, 2010–2022](#), Climate Change Commission. [National Climate Change Action Plan, 2011–2028](#).

<sup>16</sup> Department of Health. National Nutrition Council. [Philippine Plan of Action for Nutrition, 2017–2022. Executive Summary](#). Manila.

<sup>17</sup> In the ANR sector, 22% of lending has been from the Asian Development Fund and 78% from ordinary capital resources, reflecting the poverty reduction focus.

## Problem Tree for Agriculture, Natural Resources, and Rural Development

