

Agriculture in the Philippine Economy

Performance, Pitfalls and Potentials



Cielito F. Habito, Ph.D.

Ateneo Center for Economic Research and Development

Overview

5 Observations on Philippine Agriculture

- Agriculture remains a crucial sector in RP for attaining inclusive growth.
- Agriculture has been through ups and downs, and had rebounded from its slump in the 1980s (but has fallen anew).
- Our agriculture challenges have changed little since the 1980s.
- Effective solutions need not be costly or sophisticated.
- Local governments can do it better.

Introduction

Stories from the Farm



- **Bgy. Lopero, Jose Dalman**
*Carabaos, Not Fertilizers:
A Farmer's Plea*
- **Magsaysay, Davao del Sur**
*Diversified Organic Farming
System: A Mayor's Lament*

Fifty Years A Laggard



- In 1960, average income in RP was twice that of Thailand; now it is the reverse
- Other East Asian economies' GDP grew annually at 3.6-6.0%; RP only grew 1.4%
- Per capita GDP has grown 19 times in China, 8 times in Thailand, 6 times in Malaysia & Indonesia, but only 2 times in RP
- At current rates of per capita income growth, it would take RP >200 years to reach the average per capita GDP of the OECD (developed) countries



Agriculture remains the most crucial sector in the Philippines for attaining inclusive growth.

Persistent Challenges

Non-inclusive Growth



- **Narrow:** Growth propelled primarily by a few leading sectors and geographic areas
- **Shallow:** Weak linkages to rest of economy – e.g., low domestic value-added exports
- **Hollow:** Jobless growth; poverty-increasing growth

Top-Heavy Growth, Bottom-Heavy Needs



- Poverty incidence rose from 30% in 2003 to 33% in 2006 (now 35%?)
- Real per capita income fell 10% nationally, and fell in 50 provinces between 2003 and 2006 (PHDR 2009)
- Basic education enrollment rates dropped in 75% of provinces between 2002 & 2004
- Wide disparities in life expectancy across provinces: from low of 53.4 (Tawi-tawi) to high of 74.6 (La Union)

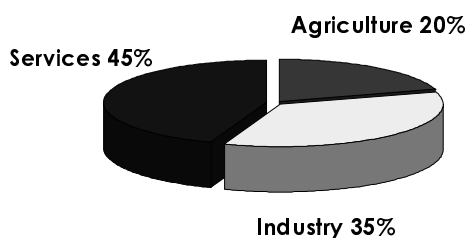
Wanted: Inclusive Growth

a.k.a. **Broad-Based Growth:**

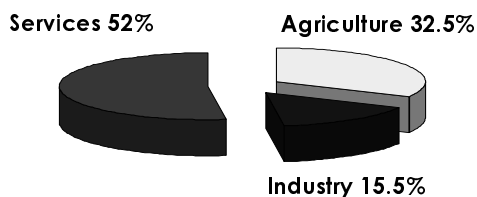
- Sectorally
- Geographically
- Temporally



Agriculture accounts for one-fifth of overall output/incomes (GDP)...

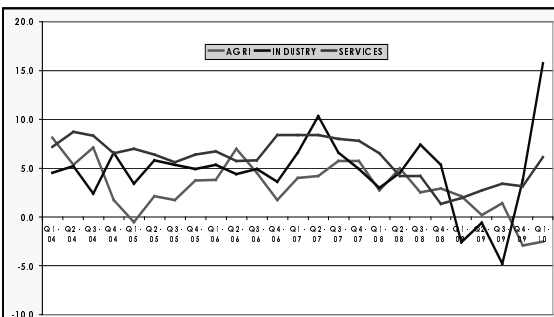


... and about one-third of employment.



→ But under a broad definition that includes agro-processing and agricultural inputs, is estimated to account for 2/3 of jobs and 40% of GDP

In the last 6 years, agriculture has tended to lag behind the other major sectors...



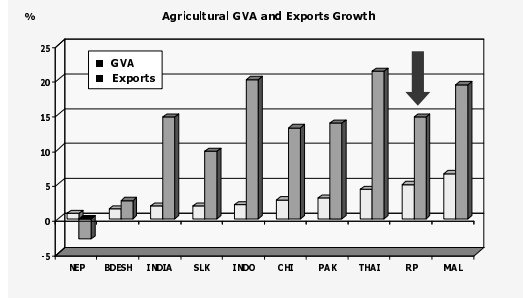
...and yet it is the sector most conducive to inclusive growth.

- **Strong growth linkage effects:**
 - Provides food and raw materials for rest of economy
 - Buyer of non-agricultural inputs and consumer goods and services
 - Releases surplus labor to services & industry sectors
- **Bulk (70%) of Filipino poor are in the rural areas**, where agriculture remains the dominant livelihood

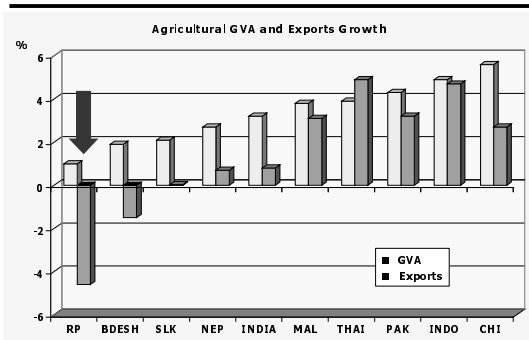
Philippine agriculture has been through ups and downs, and had rebounded from its slump in the 1980s (but has fallen anew).



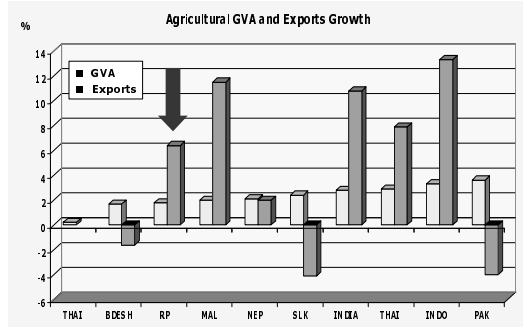
Philippine agricultural performance compared well with neighbors in 1970s...



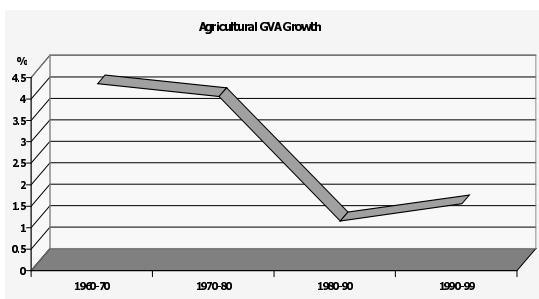
... but fell behind in the 1980s...



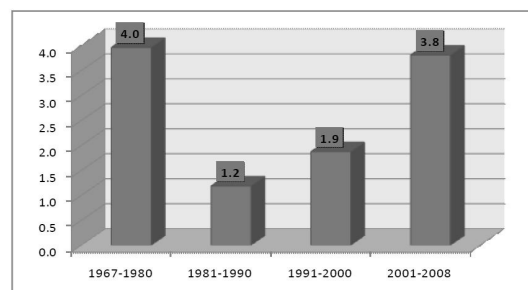
...and on through the 1990s.



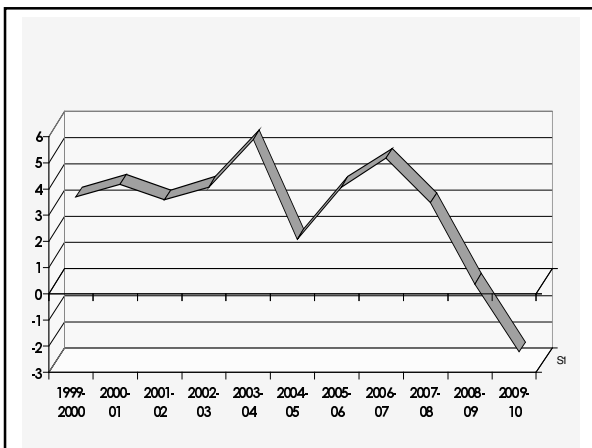
Agric output (GVA) growth slumped in the 1980s, recovered somewhat in the 1990s...



... and appears to have rebounded in the last decade...



Source: BAS.



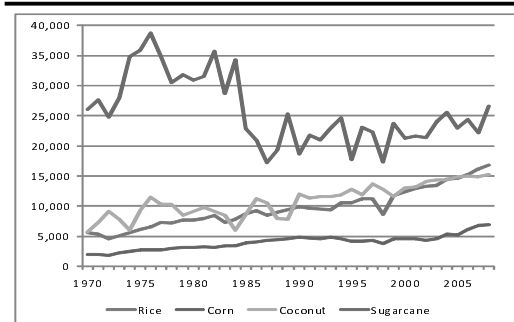
Recent Production Performance: El Niño-Induced Contraction

| Indicator | 2008 | 2009 | | | | 2010 |
|-----------------------|------|------|------|------|------|------|
| | FY | Q1 | Q2 | Q3 | Q4 | Q1 |
| GNP Growth (%) | 6.1 | 3.3 | 4.4 | 4.1 | 4.1 | 9.5 |
| Net Factor Inc fr Abr | 209 | 28.7 | 30.4 | 35.2 | 19.5 | 24.9 |
| GDP Growth (%) | 4.6 | 0.5 | 1.2 | 0.2 | 2.1 | 7.3 |
| Agri, Fish & Forestry | 3.2 | 2.1 | 0.2 | 1.4 | -2.9 | -2.5 |
| Industry | 5.0 | -2.6 | -0.6 | -4.8 | 3.8 | 15.7 |
| Services | 4.9 | 1.9 | 2.7 | 3.4 | 3.1 | 6.1 |

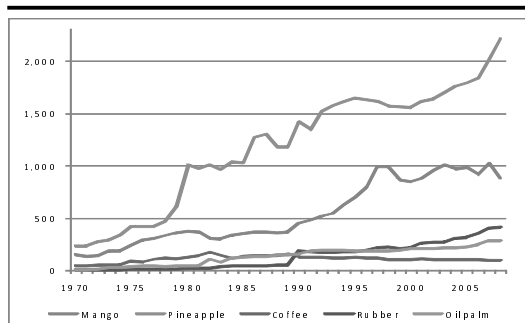
Agriculture, Fishery & Forestry: Significant Contraction Over the Past Year

| Sector | 2008 | 2009 | | | | | 2010 |
|------------------|------|-------|-------|------|------|------|------|
| | FY | Q1 | Q2 | Q3 | Q4 | Q1 | |
| AGRI, FISH & FOR | 3.2 | 2.1 | 0.2 | 1.4 | -2.9 | -2.5 | |
| Agriculture | 2.5 | 1.6 | -1.6 | 2.1 | -4.0 | -3.2 | |
| Fishery | 5.5 | 3.8 | 5.5 | -0.6 | 0.4 | -0.7 | |
| Forestry | 1.7 | -18.1 | -14.4 | -2.1 | 39.6 | 30.3 | |

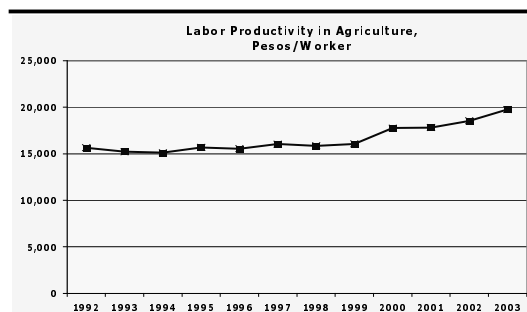
Total production of traditional crops through time shows a mixed picture...



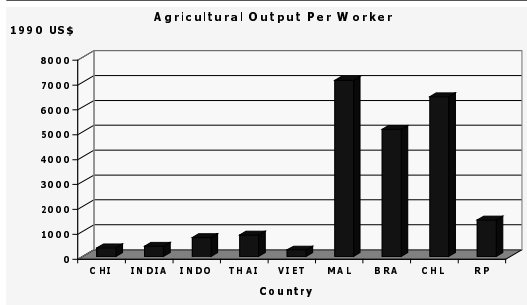
...while production of higher-value crops has generally picked up



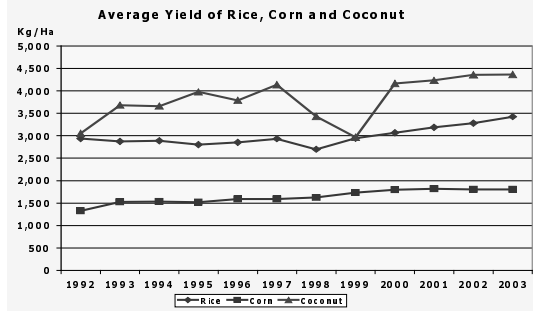
Farm labor productivity fell in the 1980s and has only recently recovered



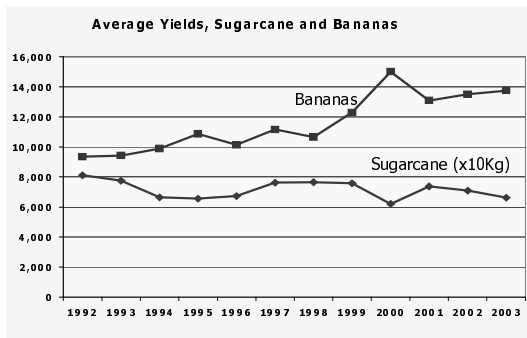
...but is comparable or better than in some of our neighbors



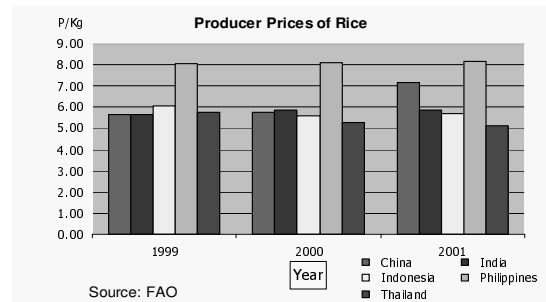
Crop yields have shown some improvement



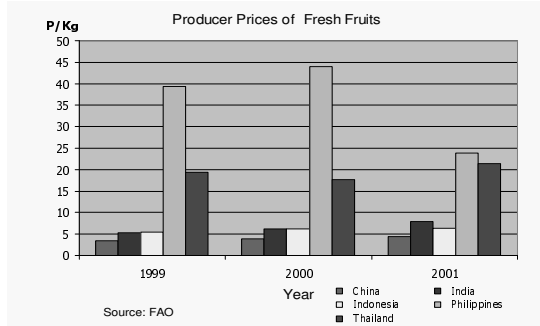
... but vary by crop



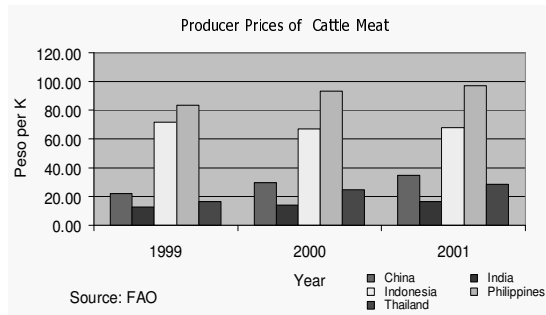
RP Agriculture has been generally uncompetitive



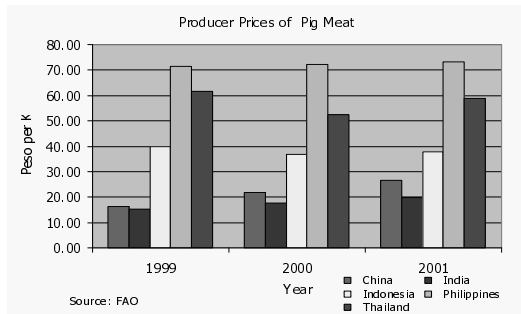
RP Agriculture has been generally uncompetitive



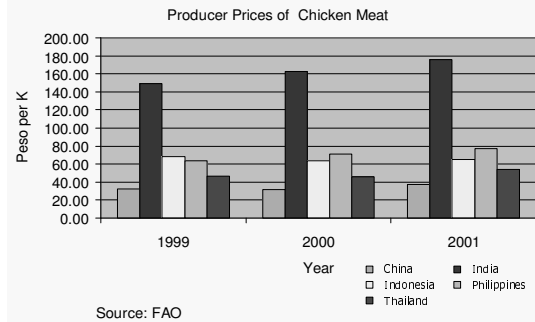
RP Agriculture has been generally uncompetitive



RP Agriculture has been generally uncompetitive



RP Agriculture has been generally uncompetitive

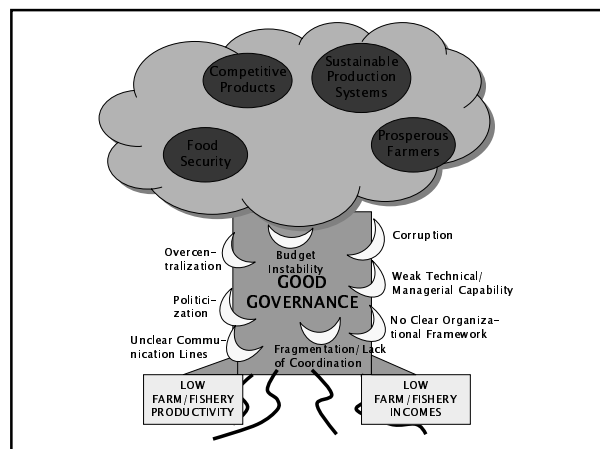
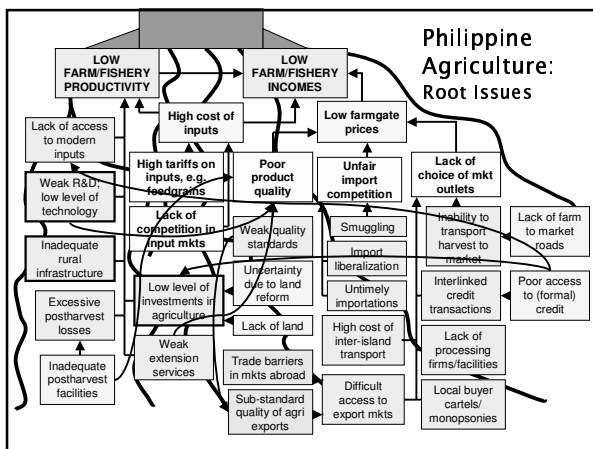
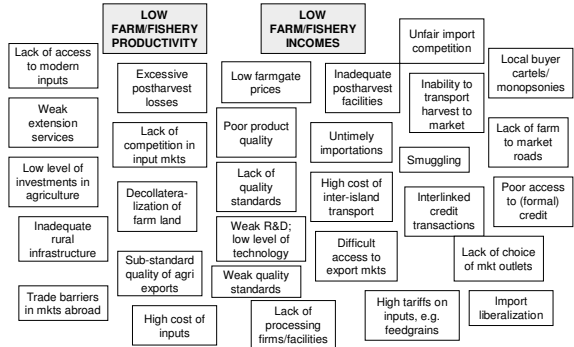


Our key agriculture challenges have changed little since the 1980s:



The problems in Philippine agriculture now are largely the same problems we were lamenting at least 25 years ago

Philippine Agriculture: An Array of Problems from Countless Past Consultations



Three Assertions

1. Success in the sector is not measured in terms of production levels, but in farmers' incomes and welfare.
2. Farmers will not invest in improved productivity for as long as they receive a meager share of their product's value.
3. Local monopsonies have for too long been a persistent feature of the rural economy, and must be overcome.

Assertion 1:

Success in the sector is not measured in terms of production levels, but in farmers' incomes and welfare.

- Higher production does not necessarily imply higher farm incomes
- DA's performance is inappropriately judged mainly on the basis of production levels
- Jobless growth in agriculture?

Jobless Growth?

Farm jobs were lost when agriculture grew 4.9% in 2007

| Employment (NSO-LFS) | Latest Period | Year Ago | Prev Period |
|--------------------------|---------------|----------|-------------|
| Unemployment Rate (%) | Oct '07 | Oct '06 | Jul '07 |
| New Definition | 6.3 | 7.3 | 7.8 |
| Jobs Generated ('000) | 483 | 310 | 408 |
| Agriculture | -25 | -7 | -227 |
| Industry | 172 | 12 | 192 |
| Services | 335 | 305 | 443 |
| Underemployment Rate (%) | 18.1 | 20.4 | 22.0 |

Assertion 2:

Farmers will not invest in improved productivity for as long as they get a meager share of their product's value.

- Low rates of technology adoption (black native pigs vs. Landrace hogs)
- Farmers do not have enough cash nor credit
- Farm price-to-retail price ratio lower in RP than in ASEAN neighbors
- Challenge is to give farmers a better price.

Assertion 3:

Local monopsonies have been a persistent feature of the rural economy for too long

- Agri-processing traditionally centralized in large facilities
- Credit linked with marketing
- Local trading cartels
- Poor rural transport infrastructure limits farmers' options
- Clustering (ala Normin Veggies) an effective counterforce

Effective solutions need not be costly or sophisticated (and therefore do not always require an increased budget).



Three Stories



- Sarangani:
Horses vs. Farm to market road
- Negros Oriental:
Farmer peer mentoring vs.
Agricultural extension workers
- Magsaysay, Davao del Sur:
Diversified organic farming vs.
“modern” technologies

Ateneo Center for Economic Research and Development



Local governments can do it better.

LGUs are better-placed to address peculiar local problems

- Numerous award-winning local agriculture initiatives
- DA's leadership should be exercised by “steering,” not “rowing”
 - *Standards setting & regulation*
 - *Technical support & capacity bldg to LGUs*
 - *Trans-local initiatives*
 - *International negotiations in agriculture*
- DA need not take all the flak (nor the credit) for agricultural performance

Ateneo Center for Economic Research and Development

What needs to be done?

- Reform the agriculture bureaucracy (basic prerequisite)
- Empower & capacitate LGUs (push further devolution/decentralization)
- Restructure the rural economy
 - Foster SME agribusiness
 - Improve supply chain/logistics & common facilities
 - Cluster small & medium producers

Key Elements of Agriculture Agenda

- Institutional Reform
 - Work thru LGUs, not above them
 - Functional, not commodity basis
 - Budget reform (depoliticize: more for programs, less for projects; CDD)
 - Provincial leadership in extension
- Promote SME agri-processing
 - Technology assistance
 - Credit support
 - Standards & testing

Key Elements of Agriculture Agenda

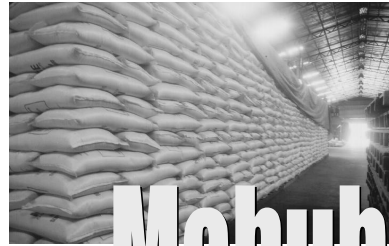
- Foster Clustering
 - Of producers
 - Of LGUs
- Improve Access to Farm Credit
 - Longer term for long gestation crops
 - Microfinance approach
 - Revisit crop insurance
- Logistics and Value Chain Approach

Wanted:

**A coherent strategy to invigorate
Philippine agriculture and agribusiness**



**...and a sound governance structure
and the political will to faithfully
implement it.**



Mabuhay!