



Rice Policy Reforms in the Philippines: A Political Economy Perspective

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The forces of globalization and influence of international institutions, in combination with domestic economic realities and politics, are reshaping the food security policy and strategy of various countries, including the Philippines.

For the Philippines, in particular, the pressure is great for it to respond immediately and come up with an effective strategy in view of what is increasingly becoming a crisis situation in the country insofar as agricultural and food pro-

duction is concerned. However, from all accounts, the Philippine government has been experiencing difficulty in pushing for the needed reforms to improve agricultural and food productivity, especially in rice and grains production.

What accounts for this? To better appreciate the situation, it is useful to review the Philippines' performance in rice production through the years as well as the developments in the country's political and institutional setups that have heavily impinged on its capacity in rice and other grains production.

This *Policy Notes* will thus outline a short history of the efforts undertaken by the Philippine government in this front, identify and assess the key problems encountered in pushing for the reforms, and present the prospects—and recommendations—for drawing up a policy reform program for Philippine food security.

Philippine rice production¹ and efforts in food security program

Over the period 1980-2000, the average growth in Philippine total rice production was 2.4 percent per year. In comparison with the country's average growth rate in population at 2.3 percent for the same period, such rate was quite slow so that by the 1990s, total rice usage in the

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¹More details on the rice sector in the Philippines may be gleaned from V. Bruce J. Tolentino et al. 101 Facts About Rice in the Philippines. Department of Agriculture and Asian Development Bank, 2001.

Philippines was already regularly outstripping domestic rice production.

From that time until the present, the Philippines has therefore shifted from a state of marginal self-sufficiency to that of being a regular and growing rice importer. The imports came from the country's rice-producing neighbors in the ASEAN region, Vietnam and Thailand, whose growth in rice productivity literally spurred upwards and left the Philippines far behind.

It was not as if the Philippines never enjoyed a comparative advantage. In the 1970s, in fact, the Philippine government emerged as a leading implementor of the so-called "green revolution" and successfully met its food security challenges. The subsequent "excesses" of the dictatorship under the martial law years, however, dissipated such gains, thus turning the Philippines into a significant importer of rice by 1986 when the Marcos regime was toppled by the People Power Revolution of 1986.

The Grains Sector Development Program (GSDP)

One of the major challenges faced by the Aquino administration when it took over in 1986 was food security. It was acutely aware that unless it instituted major reforms in food price and buffer stocking, the Philippines' record in this front would be forever problematic. Thus, amidst the high level of international goodwill and hopes during that period, the Aquino administration formulated the Grains Sector Development Program (GSDP) and began the negotiations for the GSDP loans between the Philippine government and the Asian Development Bank (ADB). While negotiations began as early as in 1990, the Philippine government and the ADB reached agreement on the terms of the loans only in year 2000, with the loans becoming effective in August 2000 under President Joseph Estrada and Agriculture Secretary Edgardo Angara. It took 10 years—from project identification to effectivity—for the GSDP loans to take full completion. In terms of political regimes, this translates to three Presidents and five Secretaries of Agriculture!

What is the GSDP? The GSDP is an integrated package of policy and institutional reforms, sector investments

and advisory technical assistance (TA) projects aimed at making the grains sector more productive and internationally competitive while helping the country meet its food security objectives. It consists of two loans totaling US\$175 million, to be disbursed from 2000 to 2005 and to finance important components of the country's programs in grains productivity, food security and poverty alleviation.

The first loan—US\$75 million—will finance investments in irrigation, advanced rice and corn production technology, and improved capacity in policy and planning. The second loan of US\$100 million will be provided as general budget support, to be released in three tranches, contingent on policy and institutional reforms aimed at expanding private sector participation in rice marketing, and at improving the efficiency of the National Food Authority (NFA), the implementation of key aspects of the food security program, and the targeting of food subsidies to the poor.

At the Heart of the Reforms: the National Food Authority *Some Unfinished Business*

The government food parastatal—the National Food Authority (NFA)—continues to exercise monopoly powers over the international trade of rice in the Philippines. Along with South Korea, the country remains one of only two countries in the World Trade Organization (WTO) that maintains quantitative restrictions (QRs) on rice imports. The monopoly power of the NFA and its tight implementation of these QRs have maintained high farmgate and thereby high consumer rice prices in the country. This has contributed to an overreliance of policymakers on price intervention instruments rather than productivity increases to support farmers' incomes and ensure domestic food security.

As set by law (Presidential Decree 4 of 1972), the mission of the NFA is praiseworthy: buy high (from farmers), sell low (to consumers) and store long (to stabilize prices). However, its performance over the past three decades shows that it has been impossible to successfully achieve its mission (TA 3429, 2001).

The investment loan will be implemented within five years, with completion expected by 31 December 2004. The policy loan, meanwhile, was expected to be released to the government within 24 months from loan effectivity in three tranches: (a) US\$30 million upon effectivity in August 2000, (b) US\$30 million by May 2001, and (c) US\$40 million by August 2002. Each release is subject to the fulfillment of agreed policy reforms. The Department of Agriculture (DA) and the Department of Finance (DOF) are the joint executing agencies for the policy loan.

Status of GSDP-linked policy reforms, May 2002

As indicated in the GSDP loan terms, the attainment of the policy goals set in the GSDP policy matrix would serve as the triggers for the release of financing under the GSDP Program Loan. Three tranches were agreed upon: the first upon loan effectivity and compliance with the first tranche release conditions. The terms linked to the first tranche were completed in August 2000. The second tranche conditions were programmed for completion by May 2001. As of May 2002, however, these conditions have yet to be fully met. Finally, the terms linked to the third tranche were programmed for completion within 24 months from loan effectivity or by August 2002. As of July 2002, though, there is no expectation that this deadline will be met.

More specifically, as of May 2002, the fulfillment of agreements under the second tranche of the GSDP Policy Matrix was already one year behind the schedule envisioned by the Philippine government and the ADB at the time of loan effectivity in August 2000. The key reason for the delay in the fulfillment of agreements has been the change in thinking on the part of the Philippine government regarding the key aspects of the policy matrix. The change in thinking came about as a result of changes in the officials involved due to the change in administration from that of former President Joseph Estrada to the present President Gloria Macapagal Arroyo.

The Secretary of Agriculture under the Arroyo administration, Mr. Leonardo Q. Montemayor, has expressed weak to negative support for the key aspects of the reforms, in particular: (a) the reduction of total procurement by the NFA of rice from and incentive payments to farmers, and (b) the

replacement of quantitative restrictions (QRs) on rice imports by tariffs, as well as the presidential certification as urgent of the legislation required to effect the replacement.

It is quite clear therefore that at this stage, the reforms will take much more time to implement, if ever. To begin with, there is no sense of urgency felt within the government on the need for the reforms. Moreover, the simple need for time and logistics will demand at least a few months for implementation. But what may constitute as the strongest possible constraint is the visible resistance to the reforms from those who stand to lose from it, namely: (a) the representatives of the few farmers who do benefit from NFA procurement, (b) the NFA Employees Association whose members fear the possibility of privatization under the reforms, and (c) the grains businessmen who have developed their enterprises around the fact that the NFA is a monopoly.

The rice sector governance issue

Reforms—especially those relating to policy—are largely dependent on the kind of governance existing in the particular sector concerned. This is quite true and evident in the Philippines' agriculture, specifically rice, sector where the frequent changes among the bureaucrats affected the quality of governance—and subsequently reforms.

Changing leaders, changing styles, changing programs

Virtually all senior level officials of the executive departments of the Philippine government, from the level of Assistant Director up to the Secretary, are political appointees. They are appointed directly by the President of the Philippines. For example, at the DA, about 180 posts are to be filled by presidential appointment. Thus, when presidents change, the appointees at the top levels of government also change. And since there have been four changes of presidents since the departure of Ferdinand Marcos in 1986, there have been at least four sets of changes in political appointees.

There are, of course, ongoing efforts to create a permanent civil service through the Career Executive Service Officer (CESO) system but the process of institutionalizing such system has been slow due to its nature of accredita-

Table 1. Department of Agriculture Leadership, 1971-2002
As of June 2002

Period	Secretary of Agriculture	Months of Service
January 1971 - June 1984	Arturo M. Tanco*	162
July 1984 - February 1986	Salvador H. Escudero	20
March 1986 - February 1987	Ramon V. Mitra	12
March 1987 - December 1989	Carlos G. Dominguez	34
January 1990 - June 1992	Senen C. Bacani	30
July 1992 - February 1996	Roberto S. Sebastian	44
March 1996 - June 1998	Salvador H. Escudero	25
July 1998 - April 1999	William D. Dar**	9
May 1999 - December 2000	Edgardo J. Angara	19
January 6 - February 15, 2001	Domingo F. Panganiban	1
February 16 - present (June 2002)	Leonardo Q. Montemayor	17

*Including as Secretary of Environment, Natural Resources and Agrarian Reform
**Acting Secretary

tion and qualification. Moreover, even with the existence of the CESO system, appointing authorities have often chosen to override the system or ignore its controls.

At the agriculture sector, since 1971, eleven Secretaries of Agriculture have been appointed, with each one serving for an average period of 33 months as shown in Table 1.

With each changing of the guard came changes in sectoral and departmental goals, objectives, strategies, timetables, programs, projects and activities. New people in the top positions of the department meant, at the very least, changes in leadership styles and work arrangements.

The combination of new initiatives and people new to government service meant that some time was necessary to "learn the job." This required a very steep learning curve over a short period—and not a few birthing pains and mistakes. The task of learning the job is also complicated by the need for visibility and impact as soon as possible after taking office. This pressure results in two major initial pre-occupation upon entry: (a) the need to erase the programs of the previous appointee, and (b) the need to announce programs labeled as one's own—no matter if the difference is only the label.

The political nature of cabinet and other senior level posts in government has emphasized this need for visibility and impact. Thus, Cabinet members, and in this case, the various Secretaries of Agriculture, often find themselves rushed to announce half-baked goals, agenda and programs even before they have had an opportunity to thoroughly review the challenges they need to face and the options available to them.

Each of the administrations since 1986 has had so much to do, so little time, and not much experience on how to get the job done. Combined with a situation where there was political opposition anxious to capitalize on mistakes, this predicament has helped foster an atmosphere where cabinet members are replaced at the first mistake—how-

ever unavoidable—whether in perception or in actuality. A culture of "cabinet revamps" and replacements of one or many officials has thus emerged. In turn, such an atmosphere has emphasized political expediency and a focus on short-term gains, often at the expense of sustainable, long-term effectiveness.

Prospects for grains sector reforms in the Philippines

Based on the above, what are the prospects for implementing the needed reforms in the country's grains sector, in particular that for rice?

At this stage, it is clear that much still needs to be done. The policy reforms covered in the GSDP policy matrix have not progressed as expected due to the combined effects of the following factors. *One*, the outlook and strategy on grains sector reforms at the DA has changed. *Two*, the time and resources required for the advocacy and completion of the envisioned reforms in the face of the sheer size and diversity of the stakeholders, were underestimated. And *three*, the resistance to the reforms mounted by certain stakeholder groups—notably the farmer-leaders who have directly received benefits from NFA's operations and the NFA Employees Association—had been intense.

Thereupon, it can be said that moving the grains sector reforms forward is much less a challenge of policy analysis as it is one of political management. The operational goal of the political administration concerned with the positive contributions of the grains sector in sustainable national development is thus the building and deployment of political coalitions in support of the key grains sector reforms.

It is also useful to note that in the international literature, one observation given regarding the possibility of success or failure of policy reforms involving agricultural or food subsidies is that: *In general, reforms that reduce food subsidies are successful in the context of fiscal crises.* The obvious reason for this is that during a fiscal crisis, the government can no longer afford to continue providing subsidies.

In the present Philippine situation, however, it seems that the government still continues to shift the fiscal burden of food price subsidies to future administrations and generations through the programs of the NFA *despite* the NFA's very precarious financial state. By providing sovereign guarantees on NFA's behalf and giving it authority to borrow from commercial banks for its operations, programs and even debt service, the government avoids having to appropriate funds directly to support the NFA's food subsidy programs. In the process, however, the NFA accumulates outstanding obligations to the commercial banks that consequently require growing debt service payments. This, in turn, increases the government's overall burden of contingent liabilities.

Clearly, this situation cannot and should not continue indefinitely. Thereupon, the implementation of reforms for the grains sector becomes imperative.

What is the context wherein the reforms are to be encouraged and undertaken?

As in many other countries, grains sector issues are very politically sensitive in the Philippines. However, in the Philippines, the political sensitivity of rice in particular is due not only to the fact that changes in staple food prices significantly affect the welfare of farmers and consumers, albeit in opposite directions, but also because popular no-

tions of national pride are at least partly based on the achievement of national self-sufficiency in the production of rice.

Furthermore, the grains sector comprises a very large number of stakeholders, not only on the supply side, but also on the multi-layered demand side as well as on the processing and distribution chains for various related products in between. The interests of these stakeholders diverge as well as change, depending on changing economic conditions and opportunities.

The management of the sector is therefore a very complex challenge. Decisionmaking in modern Philippine society is influenced by an unfettered press, a dynamic and interventionist legislature, and a citizenry that often exercises its rights to freely assemble and act. These features of openness and participatory action make media a very important tool as well as participant in the decisionmaking process. In turn, the decisionmaking hierarchy is particularly sensitive to media since the latter helps shape the political implications of policy decisions.

The stage for decisions

At this point in the process of grains sector reforms in the Philippines, there are several options that may be considered in pushing the reforms forward. The options are defined by: (a) shared development vision, (b) fiscal pressures and public expenditure requirements, and (c) timing, particularly the pressures of 2004.

Shared development vision. It is crucial to maintain a continuing agreement between the Philippine government and the ADB that the reforms indicated in the GSDP policy matrix are economically correct. The two key and interrelated elements of a shared development vision are: (a) tariffs, instead of QRs, for the protection of farmers and the generation of revenues to finance sector development, and (b) a streamlined subsidy strategy with the NFA providing more efficient food price subsidies for consumers at much lower cost. *If there is no agreement between the government and the ADB on these key elements of tariffication and streamlining of food subsidies, then the parties would be better off by restarting the dialogue on grains sector reforms.*

Fiscal pressures and public expenditure requirements. Does the government need—and when does it need—the financing made available under the GSDP? Of the US\$100 million arising from the program loan component, only \$30 million has been released. The second tranche of \$30 million has been pending since May 2001. Of the \$75 million investment loan, less than one million dollars has been released, fully two years after the loan effectivity. The government has already incurred obligations arising from commitment fees on the unwithdrawn balances. *To resolve this and other related issues, the DOF should come up with a definitive position on the GSDP loan's role in the government's overall fiscal position, particularly in the short run.*

Timing: 2004. National elections will take place in mid-2004 whereas action on the country's self-imposed commitments on the rice's QR reform must be done by December 31, 2004. However, by mid-2003, the identified contenders for national positions will already be campaigning in earnest and will be very wary of policy positions that may reduce support for them in the elections. Given the political sensitivity of the grains sector reforms, some actions on it may be considered unpopular. Thus, any measure to be undertaken related to said reforms must be made as soon as possible within 2002 at the latest. Any such initiative not completed by late 2002 can only be taken up again after the 2004 elections. *Should the rice tariff reform measure not be passed into law before say, February 2003, then the parties should reprogram reform actions to restart in late 2004 at the earliest.*

Immediate options on the GSDP policy matrix and loans

Given the above, a number of options for the implementation of the GSDP policy reform measures are open in the immediate term—within the rest of 2002. These are: (1) no definitive action in 2002, neither by the government nor by the ADB, (2) completion by government of the terms of the current policy matrix in 2002, (3) immediate renegotiation of the policy matrix and implementation of the amended policy matrix in 2002, and (4) agreement to immediately cancel the GSDP loans and embark on a fresh

start on new development assistance to become effective in 2004.

Philippine food security policy and strategy in flux: some recommendations

* At the same time that the political and controversial nature of the rice sector policy reforms is recognized, it cannot be denied that making a decision cannot be avoided and that the feasible policy direction is ultimately toward a pragmatic liberalization of rice trade. It is best that the government accept this reality and begin, as early as possible, to build coalitions in support of such reforms.

* It is crucial that some stability and long-term vision is institutionalized into sector management. At the very least, a professional, long-term technical core group of managers, administrators and technical experts must be installed in each of the departments concerned.

* The poor performance of the Philippines in sector management over the last two decades is partly traceable to the discontinuous and disjointed attention to the management of the agriculture sector, highlighted by domestic politicking. Unless strong measures are immediately taken to stabilize sector leadership on a definitive and sustainable growth path cognizant of globalization, the agriculture and rural sector will continue to be mired in stagnation. Even worse is that poverty and hunger will continue to deepen. 📄

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