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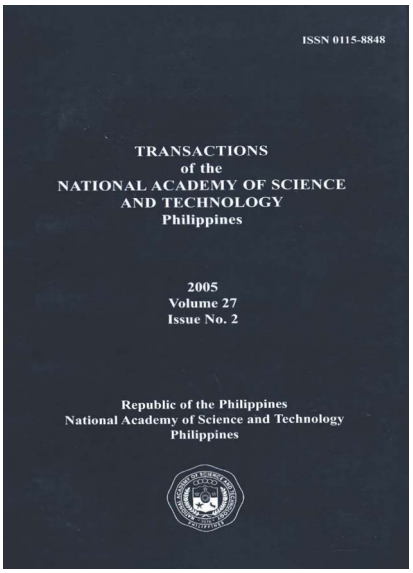

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Manuel Q. Lim Jr.

President
National Agribusiness Development Center Foundation Inc.

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A Strategy for Poverty Alleviation, Food Security, Competitiveness and Sustainability

HIGHER PRODUCTIVITY, FOOD SECURITY AND AGRIBUSINESS

Manuel Q. Lim, Jr.
President
National Agribusiness Development Center Foundation Inc.

Introduction

The Main Report is monumental and daunting. In the first part I will therefore limit my comments on and around Dr. F. A. Bernardo's paper, *Food*

Security and Poverty Alleviation: Trends, Realities, Challenges and Strategies, not because it is not monumental, nor daunting, but because it is bite-size. In the second part I will throw in a few other supplementary notes.

The Main Report

1. Megatrends Affecting National Food Security

The technology advances in rice and corn production may be turning the supply problem around through higher productivity with less than proportionately higher cost, and in the case of corn at reduced pollution levels. More work is needed to reduce the cost of inorganic fertilizers and farm chemicals, at the same time shifting to more cost-effective organic and biological substitutes. Here the technologies may be ready for kick-off, but policy reforms are needed to encourage their adoption, such as tax and market price incentives.

The opportunities for expanding irrigation are there, not only for rice, but especially for corn where advanced technology will allow additional crops without risking borer infestation, in some cases maybe even drought conditions. Irrigated corn will receive the bonus of better volumes when prices are higher—also bonus for the millers and growers whose inventory carrying costs will be reduced. This will become even more beneficial as

more corn is grown where the pigs and chickens are, and the other way around — a triple win, if one includes transport cost reduction.

But something has to be done to induce the farmers to maintain their irrigation systems. Community-base is a good move. Perhaps new and even existing national systems could be redesigned for wholesale delivery to smaller CISs. But more importantly, maintaining the systems should not only be affordable but imperative for attaining/maintaining profitability of the farming operations, the responsibility for which the farmers may become more willing to assume.

It is clear that mechanization will help by lowering production costs and improving yields. Moreover, it will reduce post harvest losses and transport and handling costs. The local industry is ready to supply most of the needs, even including ingeniously designed farm tractors and implements.

Hopefully these improvements will bring the cost of "wage goods" to a level where economic gains are not eroded by higher food costs, particularly in in-migration areas.

As an afterthought, why does NFA buy high and sell low? NFA is supposed to be the buyer of last resort, i.e., when *palay* market prices fall below costs; and seller of last resort, i.e., when rice market prices rise beyond affordable levels. This does not happen when rice is traded for political favors. A businesslike management of NFA can be self-sustaining, or close to it.

2. Major Socioeconomic and Production Factors Affecting Food Security

These are my comments and recommendations on the socioeconomic and production factors affecting food security.

People may find the uplands less inviting if there are attractive jobs or livelihood opportunities in the sloping and lowlands that will allow them to earn enough to buy their food, rather than grow it.

Aquaculture is the wave of the future, in so far as supply of animal protein is concerned. Additionally it delivers to where it is badly needed and it affords additional income. The technologies and other needed resources are there.

There is a need to re-examine the recommendation of leasing land as a permanent business step, or exchanging it for shares in a corporation. A better idea may be to look into re-consolidation of small parcels under progressive conditions.

Credit is a distinct and serious problem. While it can be attenuated by good organization and/or supply agreements, there is a need to request the Agricultural Credit Policy Council (ACPC) to finalize and implement the Agro-Industry Modernization Credit and Financing Program (AMCFP), as directed by the AFMA. Credit and finance remain critical hurdles in agricultural development. In fact, credit and finance should occupy a much more prominent position in the section "Infrastructure and Services" in the Main Report, even as a separate strategic plan.

Regarding enhancing household food security through poverty alleviation/ need for major changes in government policies and reorientation and reorganization of RDE services:

Certainly, those who do not even have enough staples to eat deserve prior attention.

The shift from monocrop to system cropping is not a problem. In fact most subsistence farmers follow system cropping precisely for subsistence, rather than for optimizing resources use. They are trapped in it. Moving from that to agro-industry is not even thinkable. But superior cropping systems become attainable with organization.

Therefore the reorientation of RDE has to be sensitive to the kind of resources that farmers have access to, either individually or communally. Some are rich in resources, some can be rich, or richer, if they join forces with others, and others are simply destitute.

The topic of organization cuts across, and will be taken up more thoroughly below. Suffice it to say here that there is a critical need for honest and meaningful coordination between government agencies/ bodies in RDE to improve the sector's share in nation building at the same time raising the quality of life for those who live and work there. **But government should only support, not undertake the effort**, not even in the organization of the smallholders/Rural Producers Organizations. **Only the private sector can do that**. This will be discussed more below.

Supplementary Notes

1. Situation

R.A. 6657, the Comprehensive Agrarian Reform Law (CARL), was approved on 10 June 1988. It was the culmination of ferment for social justice in the rural areas that dates back to the Spanish occupation. This

law's centerpiece is the principle of "landowner-tiller", meaning that the farm worker should own the land he tills. Thus the law sought to attain the sociological goal of empowering the farm worker through the economic means of transferring the ownership, over the resources that he works, from the landlord to the tenant.

Since agricultural land is the major resource in agriculture, the law sought to distribute this among those who were tilling it as the means for attaining the principle of landowner-tiller. The principal task under the law, therefore, became the acquisition of land, in excess of five hectares for each beneficial owner, and distributing it among the legally-vested beneficiaries.

But the real bottom line of agrarian reform should be access to and management of agricultural resources. While land is the major resource, it is not the only resource in agriculture. In its statement of policies, the Act seeks to improve the lot of the former tenants, to offer former landowners opportunities to reinvest the proceeds from the transfer back into agriculture, and to spur economic development in the rural areas. Thus, from the broad objectives of **agrarian reform**, the Act's provisions for implementation narrowed down to purely **land reform.** And in this constricted scope, the drive for access to and management of agricultural resources deteriorated to an obsession for pure transfer of land ownership with little or no regard to, not to mention effectiveness of, other resources that make up farming systems, or even to the adequate preparation for the agrarian reform beneficiaries (ARB) to effectively use the acquired land.

At the time that CARL was enacted, smallholder farmers had to depend on off-farm work to materially supplement their income. It was not unusual for this source to exceed the income from the land. With CARP, the number of smallholder farmers naturally increased, thus increasing the importance of off-farm income.

This off-farm income source is largely employment in the upstream and downstream **employment generators** of the **agribusiness system.** These phases cover, in the upstream, enterprises that supply such production inputs as fertilizer, farm chemicals, planting materials and animal stock, farm machinery and implements, research and development, and many other inputs to agricultural production. Downstream, we have harvest and processing, warehousing and transport, and marketing. These are all employment generators.

Not only did the authors of CARL miss out on other major resources, they forgot that by and large the beneficiaries were not prepared to go on their own — not individually — worse, not communally. This is perhaps the deepest of ravines in the path of successful agrarian reform. The Department of Agrarian Reform has made laudable efforts towards forming farming communities through the creation of *agrarian reform communities* (ARCs), but between organization development and business development is a journey of many years.

DAR has in fact demonstrated the efficacy of enterprise development through organization development in its FAO-assisted project, *Sustainable Agrarian Reform Communities – Technical Support to Agrarian Reform and Rural Development,* begun in 1995. This project demonstrated the efficacy of organization development as an entry to enterprise development. DAR's experience also drove home the lesson that "there is no one ideal approach towards establishing linkages or business arrangements, considering the wide diversity in terms of specific requirements of agribusiness companies, corporate philosophy in relation to small farmer groups and business strategies." I will show later, however, that the farmer groups become agribusinesses themselves.

An analysis of the AFMA paradigm, not surprisingly, reveals an agribusiness structure.

3. Exacerbation from WTO

It is evident that in the environment of agriculture today, to survive the smallholder farmer needs to learn and practice agribusiness management. Very little reflection will show that this is a time-consuming learning process. The situation is worse for the new landowner-tiller. Compared to the smallholder farmer, the new landowner-tiller (ARB) is likely to be starting from a negative position. A landless farm worker hardly knows even farming per se if he has been assigned to specific and narrow duties such as weeding or fertilizing or harvesting. So even as he learns farm management he has to also learn farming itself; and after farm management, agribusiness management.

More than transforming into an agribusiness man, both smallholder farmer and ARB have to learn how to consolidate resources and manage the consolidation. Some of the critical resources are not accessible to individual farmers, such as integrated pest and disease control, irrigation, farm to market roads, credit, industrial markets, and many others. What

this shows is that as the farmers and ARBs are learning agribusiness, they are also learning how to organize themselves not only into communities but also appropriate business organizations.

The appropriate business organization is not necessarily a cooperative. In fact, very often the cooperative has shown itself to be inappropriate for business enterprise. This poor cooperative performance suggests the generation of some kind of a hybrid between a cooperative and a corporation. We see an even longer gestation period, and that gestation period ended seven years ago.

Shift from the domestic market to export and the problem becomes compounded. There are the added dimensions of larger volumes, stricter specifications and consequent tighter quality control and higher levels of rejection, price-depressing competition, etc. Retreating to the domestic market will not be a viable alternative since there will be very little difference between the two markets once tariffs disappear. Thus foreign suppliers, with all of their advantages of scale, superior technology and lower input costs can drive local producers out of the domestic market. In fact they are already doing that even now when there is still some residual tariff protection in place. When smuggled in, or under *minimum access volume*, local products have capitulated. We are looking at zero to three percent tariffs.

And so, even as the new landowner-tiller is learning to stand and stumble, WTO is telling him to run with all his might, against "Olympic" grade foreign sprinters and long distance runners. Many of our aspiring competitors have miserably failed in basic organization, not to mention organization for business enterprise. As indicated above, our individual farmers will be standing far from the starting block in this race, their organizations even farther. Before they can reach the starting line, they will be eating the dust from the foreigners.

3. Agribusiness

This is the direction for agriculture-based development. In fact, as shown above, in a liberalized market economy we have no choice. For better perspective, let us look at an agribusiness definition suitable to this situation.

Given the lack of time for gestation under a WTO environment, I suggest a **two-step approach.** The central idea in this approach is to develop a working relationship between producers of farm goods on the one hand

and users on the other. The kind of relationship can go from simple open market supply modality, to contract growing under simple or complex arrangements, and where advisable, all the way to a joint venture modality. The joint venture's scope of operations could cover single phases such farm production or the whole range of the agribusiness system.

As one can gather from the foregoing sections, in most cases the farmers are not able to enter initially into a good partnership from lack of social preparation and business experience. One therefore has to be satisfied with starting with a modicum of basic organizational maturity, and work out the working relationship from there.

Still this would be faster than for the farmers to go on their own in building up business expertise. The bottom line is to accelerate this gestation by first restoring the synergy between land and labor on the one hand; and capital, market and management on the other; and to use this synergy as an accelerated on-the-job learning experience for the farmers – as an **initial step.**

But this time it must follow another paradigm. The new paradigm posits a partnership between the farmers and agricultural companies, where the farmers contribute at least land and labor while the companies bring in the markets, appropriate technology, credit, and management. The farmers may also contribute assets at hand, such as farm machinery, harvesting and processing equipment, and other facilities.

To be a real partnership the farmers have to work together, as an organized business group, rather than as individuals. Needless to say, these farmer groups have to be brought "up to speed" business wise, to level the playing field to the extent possible. The prospective business partners do not want to deal with too many parties because of the time demand, complex organization, and vulnerability to conflicts inherent in such a fragmented relationship.

Moreover, if the business firms accept the complications and opt for this type of relationship, the disorganized or inadequately organized farmers are further disadvantaged in an even more steeply uneven playing field.

On the other hand, the companies also have to learn to deal with a situation where they do not have complete control, as they may have had in the past as agricultural companies. Now they will have to plan together with the farmers who now control at least land and labor. This is especially true in a joint agribusiness venture, but so even in a looser type of relationship such as contract growing.

Conceivably the business firm ~~partners~~ could enjoy near pre-CARP conditions in a straight lease of farmlands. But such arrangements are frowned upon by DAR, and may inherently be less advantageous for the farmers in the long run, thus suffer from lack of sustainability. However, the lease modality may precede contract growing as the farmers' organization matures, and even end up as a joint venture.

Given the discussions in the earlier sections, the low incidence of organizationally mature cooperatives and other forms of farmer organizations will limit the applicability of this approach. But success breeds success. Neighboring farmer groups watch one another closely.

The **next step** would be to gradually wean the farmers from this synergy until they are able to carry on by themselves, but still maintaining some suitable business relationship with the business firms, such as downstream processing and diversification into related lines. This is where relationships between equals begin to take place.

All this preparation/development takes time, and money. Because of the exigencies of government service, which discourages overtime and weekend work – when most of the organizational development work takes place – only private sector can perform all this. However, this is clearly not a moneymaking or even self-liquidating enterprise. Government support will therefore have to come in. But this is not really a subsidy since it is the government's job to do it, and therefore part of governance. In fact, **the enterprise could spawn a career: agribusiness management developer.** As mentioned above, the problem of credit may be attenuated by the presence of a business partner. Banks tend to look kinder at loan projects where there is a "big brother", particularly if well known in the business circles.