

WHY IS HUNGER ALL AROUND US? STRENGTHENING THE AGRICULTURE SUPPLY AND FOOD VALUE CHAINS

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Executive Summary

The Asian food markets have changed enormously in the past 30 years owing to a confluence of at least three major developments. First, the rapid urbanization and increasing integration of domestic markets to the global marketplace have created huge income in most of the countries in the region, combined with their growing population, has raised the demand for agriculture produce. More importantly, the income growth has induces shifts in consumer preferences and tastes toward increasingly diversified, safe, and high-value food products. The opportunities to diversify agricultural production toward crops that have increasingly become more valuable in the marketplace have been a positive force to farm income growth. Third, the expansion, both global and domestic, of modern supply chains-encompassing the modern logistics of production, processing storage, distribution, and marketing- has transformed the organization of agriculture and agribusiness. Increasingly, scale (farm size) and efficiency-enhancing institutions matter in the effort to seize opportunities for growth and poverty reduction, especially in rural areas, from the modern supply chains.

High transaction costs raise the wedge between what consumers pay for food products and what farmers are paid for their produce. Only by reducing these costs- the difference between the retail price and the farm price- can poor urban consumers and poor farmers and landless workers benefit simultaneously from the modern supply chains. Inefficiencies in each of the segments of the supply chain raise transaction costs. These inefficiencies can arise from infrastructure inadequacies, cartelistic or monopolistic trading practices, poor market information, lack of access to credit, archaic regulatory policies, and trade policies that reduce competition between foreign and locally produced goods.

Low investments in agriculture and persistently high transaction costs have severely constrained the performance of Philippine agriculture and the food economy, effectively inhibiting growth of farm productivity and

employment, reducing the earnings of poor farmers and landless workers, and making food more expensive and less accessible to poor urban consumers and even small farmers who are net buyers of food. Productivity growth in agriculture is low by the standards of the country's neighbors, owing partly to its relatively low rate of investment in connectivity infrastructure (transport, power, communication) and agricultural R&D. Various legal restrictions and regulatory policies in various stages of the supply chains also make the cost of doing business comparatively high. The potential of agriculture and the food value chains as key drivers for poverty reduction and food security is thus muted.

The response of small producers to market opportunities from the rapidly modernizing agribusiness supply chains is particularly weak. Small producers are fragmented, have limited resources, and are handicapped by the demanding market requirements (quality, volume and frequency) of the modern supply chains, particularly in fruits and vegetables. Meanwhile, the modern retail is increasingly concentrated, food processing is vertically integrated, and fresh produce suppliers of supermarkets are consolidating and getting closer to source of production.

The government's pursuit of rice self-sufficiency policy ("buy high, sell low") has been very costly to the economy and the development of efficient food supply chains. While it may have been motivated by good intentions, the policy has, in practice, propped up local prices paid by consumers (though it somewhat succeeded in stabilizing rice retail prices in urban centers), increased volatility of domestic farm prices, discouraged private investments in the rice supply chain, impeded diversification to high-value crops and non-farm employment activities, and, in recent years, bred massive corruption.

To unleash the potential of agriculture and modern supply chains as key drivers of poverty reduction, the investment climate in the sector has to be substantially improved. This would require a departure from the business-as-usual approach to governing the sector. The aim is to achieve inclusive access to food while generating long-term sources of productivity growth, with special attention to:

- Reducing the 'cost of doing business' by investing in connectivity infrastructure (transport, power, and communication) and removing

efficiency-inhibiting regulatory measures in all segments of the supply chains (e.g. Cabotage Law in shipping).

- Re-orienting the food-security policy toward facilitating-not inhibiting- trade, competition, and diversification to high-earning opportunities. Private (including foreign) investment in processing and trade logistics has to be harnessed to link small farmers to rapidly urbanizing market centers and growth poles in Asia. For the rice sector, this would necessitate the dismantling of the National Food Authority’s extensive interventions in rice trade, including its virtual monopoly in rice importation, and the streamlining of its functions to focus on effective buffer stock management for emergency purposes.
- Aggressively investing in agricultural R&D to develop technologies appropriate for local conditions, especially in view of climate change, such as stress-tolerant varieties suitable fo cultivation in areas with abiotic problems (e.g., drought, floods).
- Increasing farmers’ access to credit by making CLOAs (Certificate of Land Ownership Awards) bankable. This will require eliminating restrictions on land transferability, land use, and contractual arrangements. The Comprehensive Agrarian Reform Program must not be further extended beyond 2014. However, the collective CLOAs, which cover about 70 percent of the total land area distributed under the program, need to be converted to individual CLOAs. Individual ownership titles, not collective titles, are what matters most to household welfare and access to credit.
- Professionalizing the agricultural bureaucracy by restoring the integrity of appointments in the civil service.

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