

Rice Science

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Fiscal Reforms to Help Achieve Food Staples Self-Sufficiency

The country aims at rice self-sufficiency by 2013. This could be realized if government services proposed in the Food Staples Self-Sufficiency Roadmap for 2011 to 2016 would be extended immediately, because these will directly or indirectly influence national rice production. One of the working hands of the Department of Agriculture (DA) is the National Food Authority (NFA).

KEY POINTS

- While NFA's success in keeping prices of milled rice down favors consumers, it is unfavorable to farmers.
- NFA's exercise of both commercial and regulatory powers could create conflict of interest.
- Farmers almost always sell their palay to rice traders because it is more convenient.



Mandate of the NFA

The NFA is to ensure food security and stabilize supply and prices of rice. This is achieved through procurement of palay from farmers and their organizations, maintenance of buffer stocks, processing activities, dispersal to strategic locations, and distribution of rice to marketing outlets at appropriate times of the year. NFA also has regulatory functions such as price monitoring, and licensing and registration of persons or companies engaged in the wholesale, retail, processing, manufacturing, storage, transporting, packaging, and importation/exportation of grain food products (www.nfa.gov.ph).

How does the price support program of NFA work?

The stabilization function of NFA intends to protect both producers and consumers of rice by setting and defending reasonable floor and ceiling prices to influence domestic price levels. The floor or support price is the minimum price that a farmer should receive per kilogram of produce. Ceiling or release price is the maximum price that consumers should pay per kilogram of milled rice.

NFA defends the floor price by buying palay from farmers when there is abundant supply (market price is depressed), thereby maintaining market prices equal to or above the floor price. NFA maintains ceiling price by injecting milled rice into the market when there is scarce supply (market price is high), thereby maintaining market prices equal to or lower than the ceiling price.

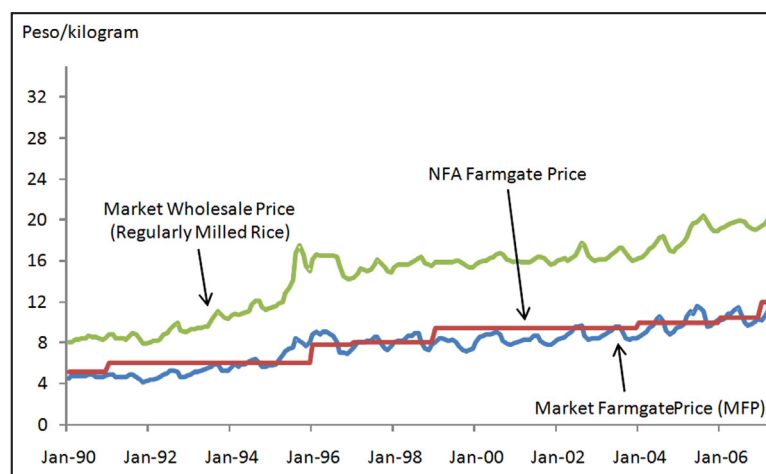
Is NFA able to defend floor price?

In general, NFA cannot effectively stabilize market farmgate prices (MFP) at or above the floor price (NFA farmgate price), as its procurement activities in 1990-2010 reveal (Bordey, 2011). Figure 1 shows that MFP is lower than floor price in most instances. This finding is verified through a fixed effects regression analysis¹ that statistically proves insignificant influence of floor price on the MFP (Table 1).

Table 1. Results of fixed effects regression using market farmgate price (MFP) of palay as dependent variable.

| Explanatory Variables | Coefficient | P-Value |
|---|-------------|---------|
| Market Wholesale Price of Regularly Milled Rice (RMR) [Peso/kg] | 0.47* | 0.00 |
| NFA Farmgate Price (Peso/kg) | 0.01 | 0.74 |
| NFA Retail Price (Peso/kg) | -0.03 | 0.58 |
| YearTrend | 0.06* | 0.00 |
| Constant | 0.60* | 0.00 |
| R-Squared | | 0.98 |

* - significant at 1% alpha



Source: Bureau of Agricultural Statistics

Fig. 1. MFP is lower than floor price in most instances.

NFA could not stabilize MFP because it could not buy much palay. From 1990 to 2009, annual palay procurement of NFA averaged at only 2% of the total production (Bordey, 2011). This implies that NFA is a weak player in the market. If NFA would be financially strengthened to procure more, then it could better influence the MFP. Many farmers, though, choose not to sell to NFA because it is much easier and faster to sell to private rice traders.

¹ This is a statistical test that can identify the significant factors influencing the variable of interest.

Bordey's study also shows that market price of regularly milled rice significantly affects MFP (Table 1). Under a competitive market, rice traders lessen their operation costs so they can later sell RMR at a price equal to or lower than the market price. One of the costs is for palay procurement, which they cut by reducing MFP.

Is NFA able to defend ceiling price?

Studies on the rice price stabilization job of NFA saw that it indeed stabilized market price of milled rice (Chupungco, 1991). Bordey's study also shows that NFA's ceiling price (retail price) ably controlled the price of RMR from 1990 to 2010 (Table 2). Keeping the ceiling price stable through the injection of rice into the market during lean seasons can effectively control the increase of prices. This is because enough supply discourages price increase.

Table 2. Results of fixed effects regression using market retail price (MRP) of regularly milled rice as dependent variable.

| Explanatory Variables | Coefficient | P-Value |
|----------------------------|-------------|---------|
| NFA Retail Price (Peso/kg) | 0.78* | 0.00 |
| Year Trend | 0.38* | 0.00 |
| Constant | 1.22* | 0.00 |
| R-Squared | 0.91 | |

* - significant at 1% alpha

Unfortunately, while NFA's success in keeping RMR prices down favors consumers, it hits farmers very hard because palay prices remain low.

NFA's rice importation and its effect on "buy high, sell low" policy

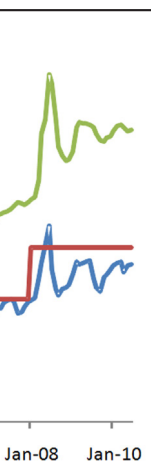
NFA maintains a 30-day buffer stock that serves as reserve for the lean months (Jul-Sept). The stock consists mainly of imported rice since procurement from

domestic production is minimal. With this, NFA is the first to import to ensure enough buffer stock.

From 2002 to 2006, rice importation carried a 50% tariff. Every time NFA imported rice, the government both collected taxes as a revenue and spent taxes as expenditure. This transaction writes-off the effect of tariff on the national government budget. The problem arises when NFA operates under its "buy high, sell low" policy. In its effort to provide affordable rice to consumers, NFA sells at a price not enough to cover the costs of importation. To benefit both consumers and farmers, the NFA pegs ceiling and floor prices close to each other, which difference is not enough to cover marketing expenses such as milling, transportation, and storage costs. These have led to NFA's ballooning financial debt, despite tax exemption for imported rice granted in 2007.

What are NFA's regulatory functions?

These functions involve monitoring, licensing, and registration of firms engaged in the grains business. However, NFA's exercise of these regulatory powers could be used to favor the agency's commercial operations (e.g., procurement and sale of rice). Having both regulatory and commercial roles could create conflict of interest.



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CALL FOR ACTION

1. To avoid further accumulation of high-interest expense, the government has to consolidate all liabilities of NFA and restructure them into financial instruments that accrue lower interest rates. To avoid the recurrence of this financial problem, NFA's functions should be reformed.

2. Separation of trading and regulatory functions of NFA.

A new government agency that will solely build up and manage the national rice buffer stock needs to be put up. This agency should consider implementing the following items:

- Build up a 30-day buffer stock by July 1 of every year and maintain a 15-day buffer stock at any other time of the year.
- Buffer stock should come from domestic production. The agency should procure fresh palay to ensure the buffer stock.
- The agency should focus on managing the buffer stock alone and avoid influencing market prices.

NFA should maintain its regulatory functions, primarily monitoring private warehouses to prevent hoarding of stocks; curbing rice smuggling; and providing regulations that ensure a better rice processing system. Since NFA is efficient in doing its regulatory functions, transforming it into a line bureau of the DA is a better option than abolishing it.

To avoid duplication of work, the rice research and development activities of NFA, as well as other agencies such as the Philippine Rice Research Institute (PhilRice), the Philippine Center for Postharvest Development and Mechanization (PHilMech), the National Agricultural and Fishery Council (NAFC), and UP Los Baños (UPLB), should be coordinated through and by the Philippine Rice Postproduction Consortium (PRPC), which was created through E.O. 309 in 2004.

3. Impose tariff instead of quantitative restrictions.

Without the direct involvement of NFA in rice trading, our policies on rice international trade should be reformed. Currently, the government allows the imposition of restrictions on the quantity of rice to be imported, which is called Quantitative Restrictions (QRs).

Under QR, private importers are allowed only a limited volume of rice. In this situation, the selected importers can bribe the government to gain favor in the trade.

Tariff, on the other hand, generates revenue for the government and discourages bribery. For tariff to be effective, it should be just enough to encourage companies to import rice that meets the local demand.

4. Allot a fixed part of the tariff proceeds to finance support services for farmers.

As an alternative to QR toward protecting farmers from cheaper imported rice, support to farmers such as irrigation, rice technologies, and credit must be adequately financed.

5. Transfer of NFA's food subsidy program to other government institutions.

Distribution of food subsidies in times of calamities or food shortage can better be implemented through other government institutions such as the Department of Social Welfare and Development (DSWD). These institutions can withdraw stocks of rice from the new agency that would handle buffer stocks provided that accounts are properly settled.

ABOUT THE MATERIAL

Rice Science for Decision-Makers is published by the Department of Agriculture-Philippine Rice Research Institute (PhilRice). It synthesizes findings in rice science to help craft decisions relating to rice production and technology adoption and adaptation. It also provides recommendations that may offer policy triggers to relevant rice stakeholders in search of opportunities to share their knowledge on rice-related policies.

The articles featured here are grounded on solid basic and applied research in agronomy, biology, chemistry, and engineering; but it also underscores major contribution from the social sciences.

This issue analyzes fiscal reforms to achieve food staples self-sufficiency, zeroing in on the role the National Food Authority plays in ensuring food security and stabilizing supply and price of rice. It proposes recommendations regarding the regulatory and trading activities of the NFA and how such functions can be reformed. It also provides suggestions concerning imposition of tariffs that could help generate revenue for government and finance support services for farmers.

Understanding the importance of these fiscal reforms would eventually lead to improving farmers' situation. This dimension assigns significance to the human aspect of R&D, a crucial component in fulfilling our country's aspiration to achieve rice self-sufficiency by 2013.

For comments and requests for additional copies, please write to:

Development Communication Division

Philippine Rice Research Institute
Maligaya, Science City of Muñoz, Nueva Ecija
Contact: amj_eligio@email.philrice.gov.ph • (44) 456-0258, -0277, -0285 loc. 511, 512

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Authors: **Flordeliza H. Bordey, Aileen Castaneda**
Managing Editor: **Anne Marie Jennifer E. Eligio**
Editorial Advisers: **Manuel Jose Regalado, Ruben B. Miranda,**
Constante T. Briones, Karen Eloisa T. Barroga
Layout Artist: **Carlo G. Dacumos**

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