Hungry and Indebted
The Philippine Food Crisis and the Debt-Hungry Agriculture and Food Agencies

By the Freedom from Debt Coalition (FDC)

Abstract

The story of the state of Philippine agriculture, especially of rice production, is that of riches to rags – from being an exporter in the early 1970s, we had been reduced to an importer, getting our rice mainly from our South-East Asian neighbors like Vietnam. How this relates to the story of increasing liberalization of our trade policies had been elaborated much in several texts explaining the recent food crisis, but little has been written on how our story of agricultural decline is accompanied and even facilitated by the story of worsening debt situation.

The truth is, the government had been increasingly dependent on debt in order to finance social and economic services like agriculture. There is continuing reliance on foreign lenders to finance economic and social projects – a policy which would have been unnecessary if the government allocated more to social services than debt payments.

The agriculture agencies themselves, such as the Department of Agriculture (DA) and the Department of Agrarian Reform (DAR), and their attached corporations, facilitate this process, calling on lenders to finance domestic projects, labeled as Foreign-Assisted Projects (FAP), usually through Official Development Assistance (ODA) and other forms of "concessional" financing, which at times were only wasted due to inefficiency and corruption. The agricultural agencies, serving as a nexus between foreign loan sharks and capital-hungry government, turn itself into a generator of illegitimate debts.

This debt-dependence paves way to another intractable problem: the conditionalities attached to the loans. By accepting their financing, the government concedes to acquiesce to the demands of lenders for industry-wide reforms consistent with the paradigm of neo-liberal globalization – that of liberalization, deregulation, and privatization. Specifically in the agricultural sector, the conditionalities only managed to open up the domestic crop market to foreign competitors, thereby eradicating local producers which prices cannot compete with the prices of large foreign producers enjoying huge subsidies from their home states. Free market rules, instead of social need, now govern the distribution of crops like rice.

But the problem of debt permeates not only agricultural production and distribution. On the consumption side, the National Food Authority (NFA) had been sinking deeper and deeper into debt, raising funds through floating bonds in order to import rice and meet the country's rice consumption requirement despite small government subsidy. Just as how our neo-liberal government responded to other debt-ridden Government Owned and Controlled Corporations (GOCC) in the past, the current administration is now planning to privatize NFA and nail the last hammer towards total market control in our food supply chain.

This paper elaborates on the problems of debt, conditionalities, and their impact on the agricultural and food sector: from production, to distribution, to access and consumption. Subsequently, the paper calls for genuine food sovereignty banked on domestic food self-sufficiency, an end to agriculture and food - related debt-dependence and illegitimate debts, and the strengthening of NFA – calls which will be discussed at length later in the analysis and recommendations.

Keywords: Food crisis, Debt, NFA debt, Grain Sector Development Program

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The Quagmires of Philippine Agriculture and the Lack of Government Subsidy

The country first became a net exporter in 1968 under then Agriculture Secretary and Vice President Fernando Lopez, also appointed as the rice czar of former President Ferdinand Marcos [DA website, 2008]. Under Marcos's watch, the Philippines maintained its self-sufficiency in rice as "the Green revolution brought about adequate increases in yields" [Lim, 1996].

The situation is very different now. From being an exporter of rice, we had been reduced to a perennial importer, and ever increasingly so. In 1984 for example, we imported 191,000 metric tons of rice. This ballooned to 2.1 million metric tons in 2008, according to the estimated requirement by the NFA.

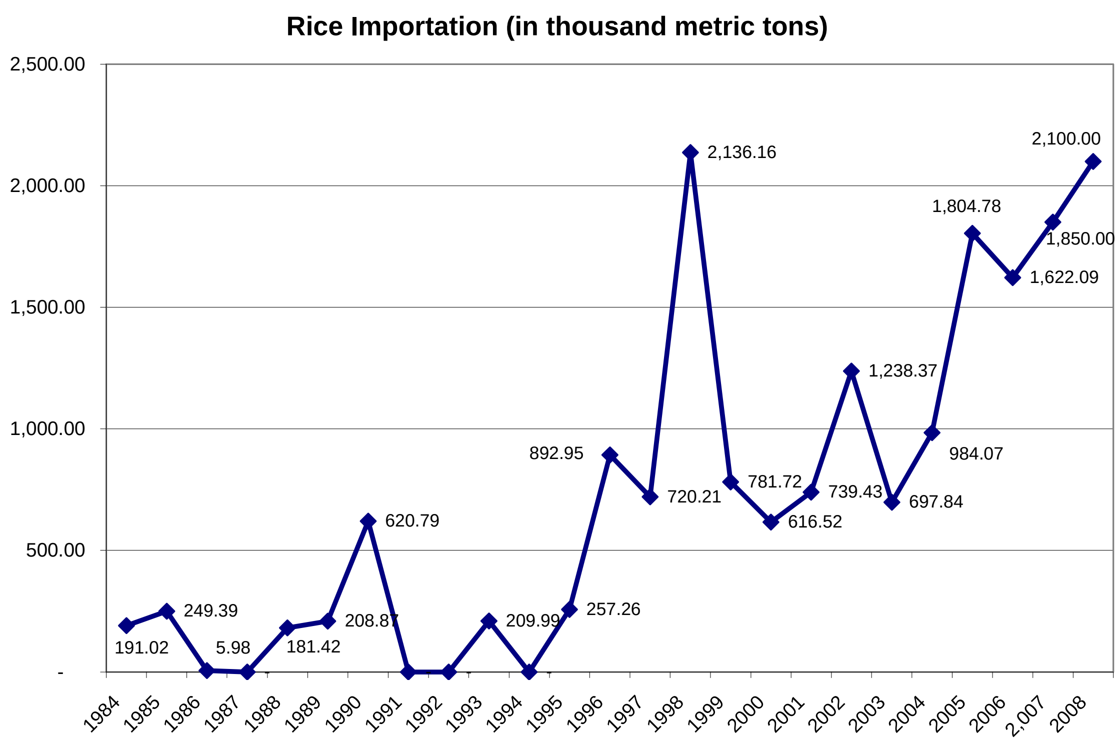

Figure 1. *<u>Rice Importation.</u> Source: NFA-DMO, NFA Spokesperson Rex Eestoperez, as cited by GMAnews.TV microsite on the Rice Crisis.*

Another important indicator which we can use in determining whether agriculture has declined or not is the Gross Domestic Product (GDP). Due to the emphasis of the government and its agencies in service-industries, Philippine agricultural base shrunk relative to its ASEAN neighbors. Domestically, agriculture suffered a continuous decline in GDP share, from 40.4% in 1946 to 18.8% in 2004.

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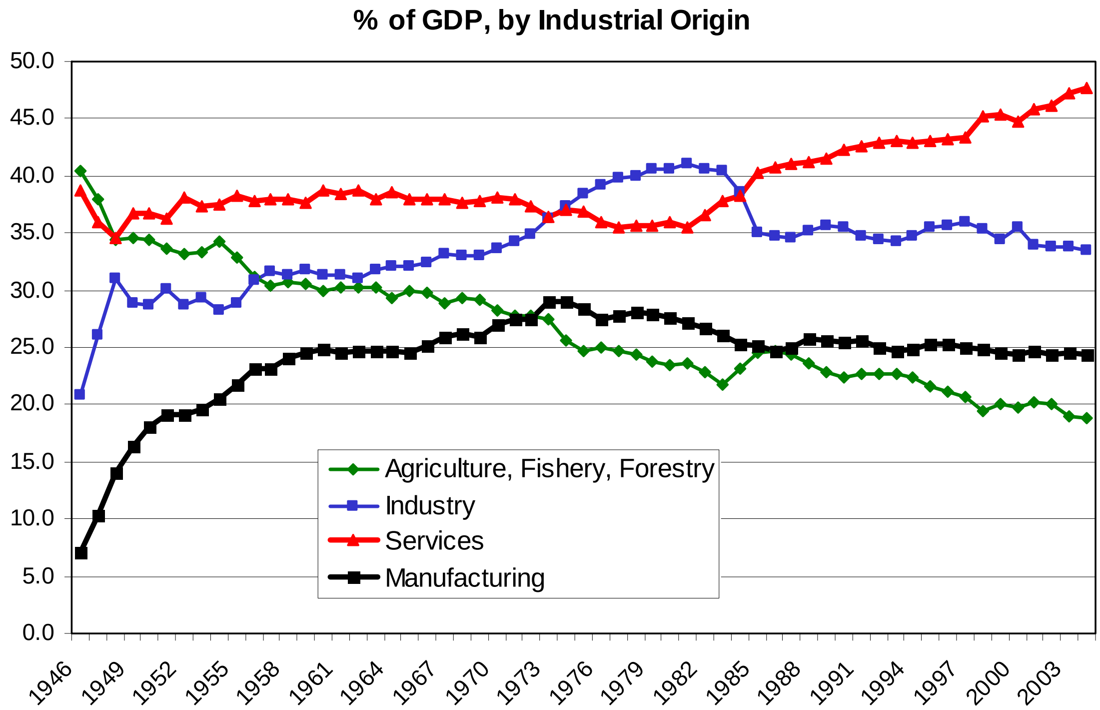

Figure 2.
GDP (Constant Prices - 1985) Components, Supply Side, as % of GDP. Source: National Statistical Coordination Board (NSCB).

The government, in effect, shifted from agriculture to service as economic base. This is reflected also by the dropping share of agricultural workers in the labor force, from 42.5% in 1988 to 31.9% in 2005, is also emblematic of an agriculture sector in decline.

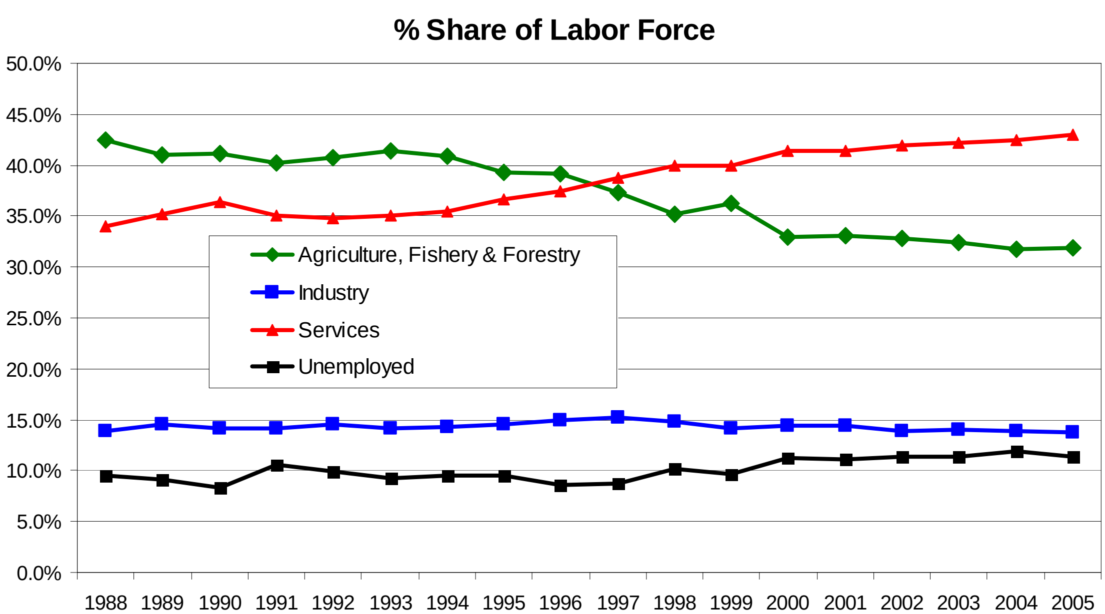

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Figure 3. *Labor Force Share. Source: National Statistics Office (NSO).*

This means that even if the economy has registered nominal and even real growth in agricultural production, the section of the economy devoted to it, in terms of labor share and production share, is shrinking relative to the whole economy. This is unfortunate considering the fact that rice consumption per capita per kilogram per year is increasing, from 92.53 kilograms in 1990 to 118.70 kilograms in 2006. It can be assumed that the inelastic demand for rice increases due to population growth, which had been hovering around 2-3% per annum from 1980 to 2008 (projected).

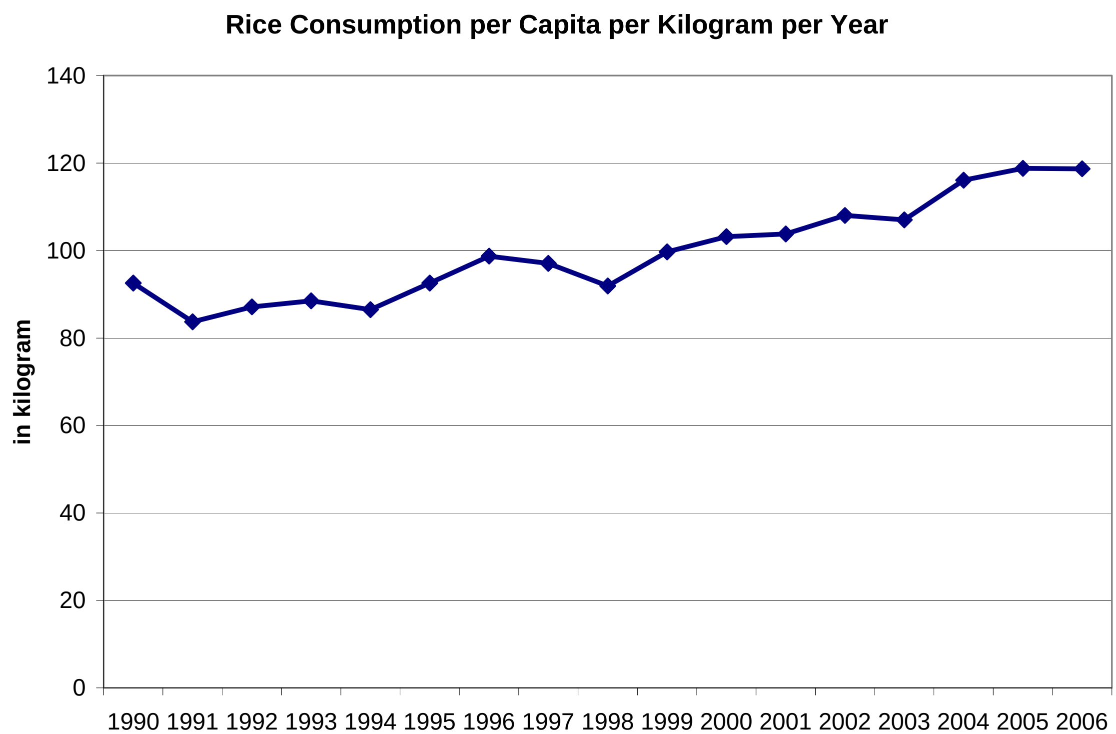

Figure 4. *Rice Consumption per Capita per Kilogram per Year. Source: Bureau of Agricultural Statistics (BAS).*

What went wrong? What caused the stasis of the agricultural sector? Many arguments had been put forward tackling on the trade liberalization policy of the government. An equally important factor to look at is the amount of institutional support on agriculture, and this is mostly reflected by the agricultural spending over the years.

Unfortunately, this support is static, if not deteriorating.

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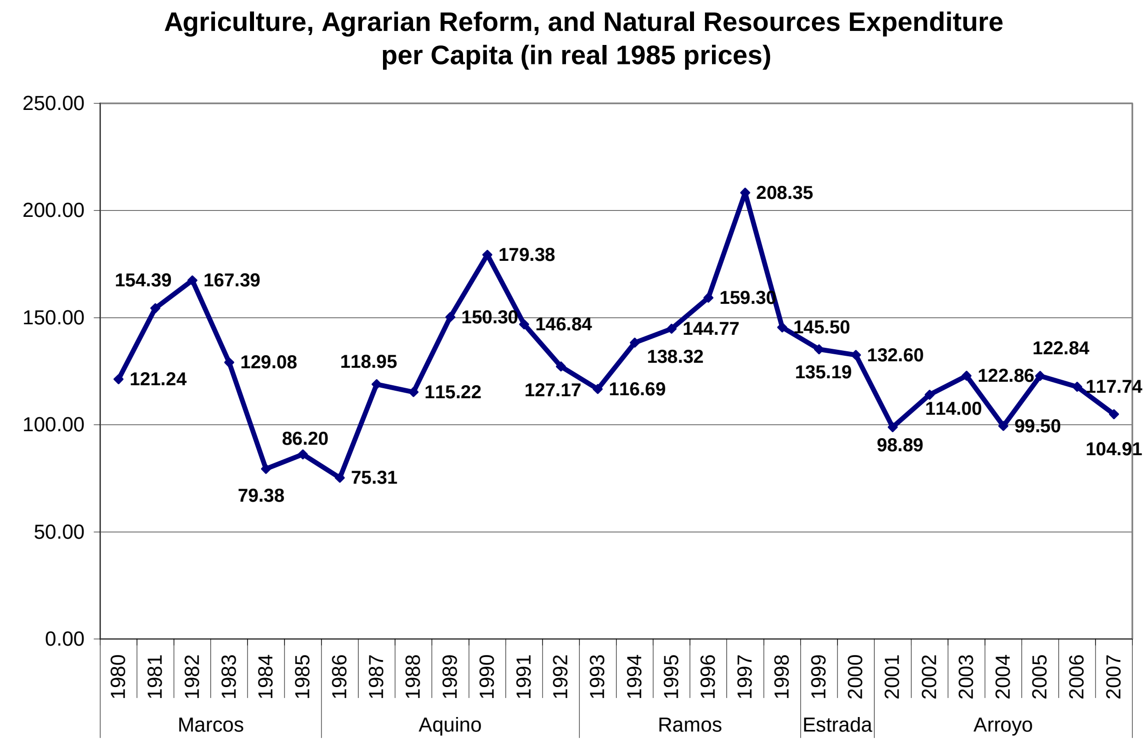

Figure 5. *Agriculture, Agrarian Reform, and Natural Resources Expenditure per Capita (in real 1985 prices). Sources: Department of Budget and Management (DBM) for Agriculture, Agrarian Reform, and Natural Resources Expenditure, National Statistical Coordination Board (NSCB) for GDP nominal at GDP real values, National Statistics Office (NSO) for 1980, 1990, 1995, 2000, and 2005 census. Comment: The expenditure item was divided by the GDP deflator (computed as GDP nominal divided by GDP real) to get the real value. The population for years 1981-1989, 1991-1994, 1996-1999, 2001 to 2004, and 2006-2007 were interpolated and extrapolated using linear regression.*

Notice in the chart above that in real (1985) prices, the combined national government expenditure for agriculture, agrarian reform, and natural resources per capita actually dropped from meager PhP 121.24 to unfortunately small PhP 104.91. Whether or not the lack of state subsidy is the cause of agricultural quagmires is yet to be determined. What is clear is that our administration had been giving static if not decreasing, and very little at that, subsidy to a crucial industry in decline.

Other countries had been enjoying substantive amount of government subsidies also for agricultural production through systems of production subsidies. The Philippines should take example from the European Union's (EU) Common Agricultural Policy (CAP), an agricultural subsidy system which works by guaranteeing a minimum price to producers through a direct payment, financed by subsidies, for crops planted. Thus, CAP provides some economic certainty for EU farmers, ensuring production of a certain quantity of agricultural goods. Funded by the European Agricultural Guidance and Guarantee Fund (EAGGF) of the EU, the general orientations of the CAP were built upon three major principles: market unity, community preference, and financial solidarity.

Unfortunately, our government chose to externalize this important function of financing agricultural production, especially in a period of liberalized. Instead, it relies on foreign lenders to reduce beef-up the agricultural sector.

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Debt-driven Agriculture

The mode by which government agencies such as those engaged in agriculture finance its projects and programs despite the lack of state subsidy is through Official Development Assistance (ODA), defined by the Organisation for Economic Co-operation and Development (OECD) defines Official Development Assistance as:

> "ODA consists of flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following test: a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and b) it is concessional in character and contains a grant element of at least 25 percent (calculated at a rate of discount of 10 per cent). [OECD, 1996]"

At this point, it is important to note that to classify as ODA, only 25 percent grant is needed - as such, most of ODAs come with large loan components. Consequently, ODA is one of the primary sources of national government debt, primarily because of the loan-grant mix. Dr. Tadem reported that the loan-grant distribution of ODA to the Philippines remains unfortunately skewed in favor of loans, with shares of loans to total ODA even increasing from 82% in 1987-2000 to 84% in 2001-2007 [Tadem, 2007].

Thus, the addiction of the Philippine Government to ODA resulted in a huge debt stock that continues to increase year by year. As of September 2007, the Bureau of Treasury reported that the National Government Outstanding Debt reached a staggering PhP 3.83 trillion, PhP 1.63 trillion of which is foreign debt. Debt service for 2008 as proposed by the Department of Budget and Management reaches PhP 624.09 billion: PhP 295.75-billion of which is earmarked for interest payments and PhP 328.34-billion off-budget expenditure for principal amortization.

The agricultural agencies are not exempt at this. According to the Department of Agriculture (DA) website [2008], their 2005 Foreign-Assisted Projects (FAPs) portfolio for on-going project covers a total of 32 FAPs - 11 are being implemented in Luzon, 6 in the Visayas, 6 in Mindanao, and 9 have a nationwide coverage.

The FDC paper on Agrarian Reform ODA [FDC, 2008] reported that in the 2006 Accomplishment Report of Department of Agrarian Reform, DAR prides itself on its "high absorptive capacity" in utilizing Official Development Assistance. In the year 2006 alone PhP 62.32 billion of ODA money was spent on implementing CARP.

The result of huge ODA inflow is, of course, huge debts. As of 2007, the Agriculture related departments had been responsible for US$ 1.4 billion of the national government outstanding foreign debt, and this expected to go higher in 2008 due to additional borrowings. This is of course, on top of agricultural GOCCs which may have been loaning also from the same foreign lenders.

Agriculture and Agrarian Reform Agencies Outstanding Debt, Borrowings, and Net Borrowings (in million US dollars)			
	2006	**2007**	**2008 (projected)**
Outstanding Debt ***(start of the year)***	1,416.935	1,413.747	1,515.684

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Added Borrowings	125.105	177.709	85.406
Net Borrowing (*Borrowings minus Principal Amortization*)	(3.189)	101.938	83.255

Table 1. *Agriculture and Agrarian Reform Agencies Outstanding Debt, Principal Amortization and Borrowings. Sources: Table D.6 of Budget of Expenditures and Sources of Financing, Fiscal Year 2008. Department of Budget and Management (DBM). Comment: Includes principal and outstanding debts for loan items in which the following agencies were listed as one of the implementing agencies – Bureau of Plant Industry (BPI), Department of Agriculture (DA), Department of Agrarian Reform (DAR), National Irrigation Administration (NIA), Farm System Development Corporation (FSDC), Philippine Council for Agriculture, Forestry & Natural resources Research and Development (PCARRD), University of the Philippines Los Baños (UPLB). Includes also a specific National Economic Development Authority (NEDA) loan on Farms Development from USAID, and a loan from Technology and Livelihood Resource Center (TLRC), under the Department of Science and Technology (DOST).*

The increasing indebtedness on the part of agricultural agencies and departments, eventually, will have an impact on government spending. Because of the automatic appropriation provision in Sec. 26 (B), Book 6 of the Revised Administrative Code of 1987 as copied en toto from Sec. 31 (B) of Presidential Decree 1177, a Marcosian directive, allocation for principal amortization and interest payments of loans is automatically ensured.

Debt Service for Agriculture-related Loans (in million US dollars)			
	2006	**2007 (programmed)**	**2008 (proposed)**
Principal Amortization	171.443	90.542	98.863
Interest Payment	49.826	51.163	53.275
Total	**221.268**	**141.705**	**152.139**

Table 2. *Debt Service for Agriculture-related loans. Sources: Table B.22 of Budget of Expenditures and Sources of Financing, Fiscal Year 2008. Department of Budget and Management (DBM). Comment: Includes debt service for loan items in which the following agencies were listed as one of the implementing agencies – Bureau of Plant Industry (BPI), Department of Agriculture (DA), Department of Agrarian Reform (DAR), National Irrigation Administration (NIA), Farm System Development Corporation (FSDC), Philippine Council for Agriculture, Forestry & Natural resources Research and Development (PCARRD), University of the Philippines Los Baños (UPLB). Includes also a specific National Economic Development Authority (NEDA) loan on Farms Development from USAID.*

Unfortunately, this overwhelming debt burden siphons away resources which could have been spent for other more productive aspects of society and the economy. We thus end-up in a vicious cycle: the government cannot spend more on economic services because of the huge debt burden, which is why it ends up relying on debt-creating instruments such as ODAs. Meanwhile, the debt stock continues to increase due to government reliance on such financing instruments. The government is trapped in a vicious cycle of debt and debt-dependence.

Agriculture and Agrarian Reform Budget vs. Debt Service of Agriculture and Agrarian Reform Loans (in billions pesos)

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	2006 (actual)	2007 (adjusted)	2008 (proposed)
Agriculture and Agrarian Reform Budget	38.711	35.553	41.181
Agriculture and Agrarian Reform Debt Service	11.354	6.539	6.231
Exchange Rate Used (US$1 = PhP?)	*51.31*	*46.15*	*40.95*

Table 3. *Comparison of Agri-Agra Budget and Agri-Agra Debt Service. Sources: Tables B.7, B.22 of Budget of Expenditures and Sources of Financing, Fiscal Year 2008. Department of Budget and Management (DBM). Exchange Rate sourced from Bangko Sentral ng Pilipinas (BSP) Philippines Exchange Rate.*

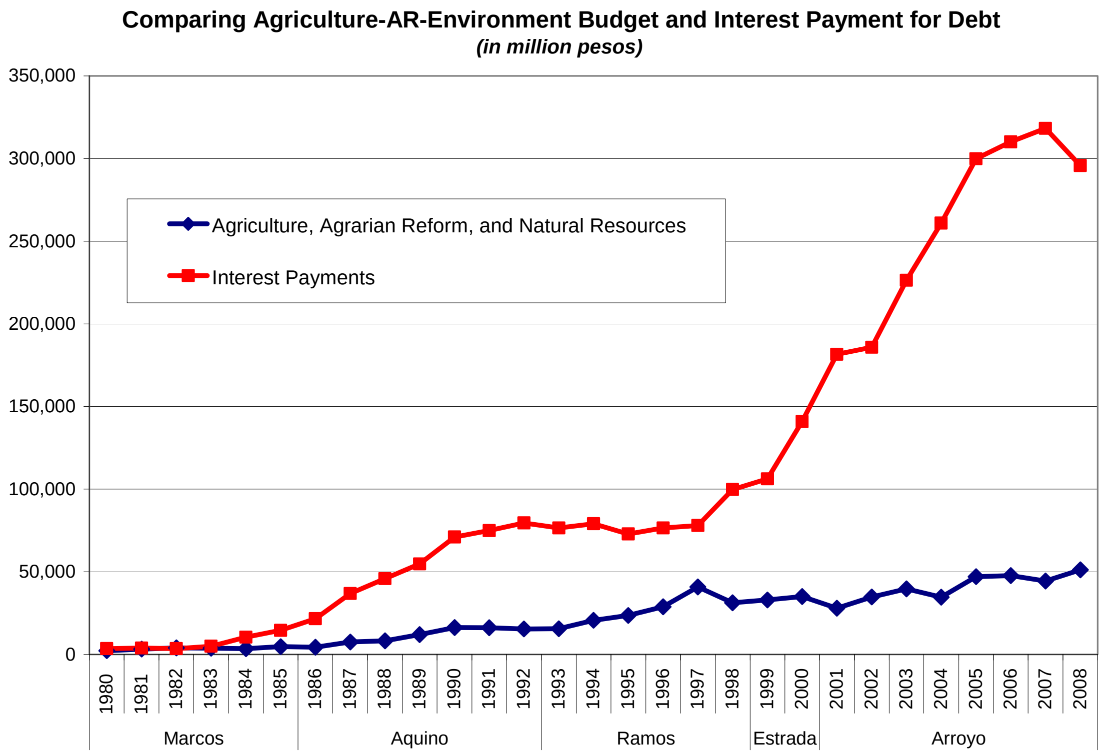

Figure 6. *Agriculture-AR-Environment Budget and Interest Payment for Debt. Source: Department of Budget and Management.*

It is very inopportune thus to note that some of such loans had been marred by corruption and other anomalies. Consider, for example, the Bohol Irrigation Project Stage II.

The project involves the construction of a 35.5 m. high earth fill dam across Bayongan River, including its main and lateral canals, drainage, and road network, development of on-farm facilities including land development, and water management plan including water measurement and communication network.

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Financing came from the Japan Bank for International Cooperation (JBIC) using two loans, with loan accounts PH-P202 and PH-P063.[1]

The project turned out to be a wasteful and expensive project, and had suffered from a number of anomalies [Bagaipo, 2007]:

- Excessive and illegal project over-runs. According to former NEDA Secretary Romulo Neri the BHIP-2 is grossly disadvantageous to the government since it incurs over P1.2 billion of additional costs beyond its approved budget for contract which is P2.4 billion. Neri called the BHIP-2 as the "most expensive irrigation project" in the country. The BHIP-2, one of the country's biggest irrigation project, aims to irrigate some 5,000 hectares of rice fields in the towns of Ubay, Trinidad and San Miguel.

- Graft and corruption/malversation of fund. The BHIP-2 manager admitted NIA acquired seven vehicles last year (2006) amounting to P15million, two of which were given to Gov. Erico Aumentado – Isuzu D-Max – and Rep. Roberto Cajes of the 2nd District – Isuzu Crosswind. The fund used for the vehicle purchase was from the irrigation project

- Violation of legal procedures – Neri said that the continued construction of BHIP-2 without prior NEDA-ICC approval is violative of the law and illegal. NIA should have gotten back to the ICC (for clearance), should have cleared first with NEDA before continuing the project.

In cases like irrigation, there is continuing reliance on foreign lenders to finance projects highly susceptible to wastage and corruption – a policy which would have been unnecessary if the government allocated more to social services than debt payments.

Debt Conditioning the Agricultural Sector: The Case of the Grains Sector and Development Program

Unfortunately, most of these ODAs and other loans have conditionalities attached. These conditionalities aim to restructure or reform the country's political and economic governance model according to that prescribed by lender countries. The agricultural production loans, for example, encourage the dismantling of barriers to free trade and competition in the agricultural market. They advocated for the liberalization of the agriculture and the curbing of regulatory powers of the NFA, with the end view of privatizing the state-owned trading enterprise.

In effect, the conditionalities directly affect the distribution paradigm of the agriculture sector itself. From distribution on the needs basis, the distribution is transformed is now governed by market rules. This has an effect on the perceived role of the state on the rice distribution – from the direct state intervention to mere regulation.

Unfortunately for the lenders, the conditionalities often come into conflict with existing entrenched institutions and players in the domestic market which thrives on and profits from the existing system and its weaknesses. Specifically for the rice sector, the rice cartel is opposing threats from the rice free market, having comfortably thrived under a defectively regulated rice regime.

[1] From the data of Official Development Assistance Monitoring System, National Economic Development Authority (NEDA).

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Let us take a look at how such conditionalies were asserted in a particular loan, the Grains Sector Development Program (GSDP) which was funded solely by ADB – the first grain sector loan by an IFI to the country, and how its insensitivities to existing power plays led to its cancellation by under the administration of Gloria Macapagal-Arroyo.

The GSDP Loan

The Aquino Administration formulated in 1986 the GSDP to address food security problem and to improve the country's performance in the rice and grains sector. In 1991, the government began negotiating with the ADB for GSDP loans due to relatively low rice productivity, which resulted in the rapid rising of the consumer rice prices and difficulties faced by the NFA in stabilizing the prices. Negotiations, however, for the said GDSP loans were done for many years.

In 1995, upon the Philippine accession to the WTO, the economy, particularly the agriculture sector, had embarked on increasing global integration and exposure to foreign competition with the expectation that trade liberalization will benefit the agriculture sector and economy as a whole. It was during this period when the ADB approved Project Preparatory Technical Assistance to prepare a comprehensive policy and institutional reform program for the rice and grains sector. The PPTA commenced on June 2 1997 and completed in 1998.

Basing from the recommendations of the PPTA, the agreement between the government and ADB was reached and took effect in year 2000 under the presidency of Joseph Estrada and Agriculture Secretary Edgardo Angara.

The GSDP is an integrated package of policy and institutional reforms, sectoral investments and advisory TAs aimed at making the rice and grains sector more productive and internationally competitive in meeting the country's food security objectives. The GSDP consisted of two (2) loans – GSDP Policy Loan for $ 100 million and the GSDP Investment Loan for $ 75 million.

The GSDP objectives were consistent with the MTPDP and AFMA of 1997, which were generally intended to create a business environment that would attract private sector investments at all levels of the grains production and marketing chain, and thus contribute to food security.

The GSDP Policy Loan sought to redefine the role of the state-owned NFA, liberalize grain trading and encourage greater private investment in the sector. It was intended to change the fundamentals of grain sector performance – procurement pricing, import liberalization, private sector participation in importation, and grains markets regulation.

Specifically, there were major reform areas where actions were required from the government before the three loan tranches will be released. These release conditions include – adherence to the stipulated formula for setting the farm gate prices and maintained compliance with all international trade agreements on corn-tariff reduction; size of the strategic rice buffer stock and levels at which NFA prices were to be set; maximum import tariff levels, and minimum budget allocations, including passage of bills in Congress restructuring the NFA, including the changing of the status quo in rice and grains trading, among others.

The GSDP Investment Loan on the other hand was intended to finance investments in irrigation, advanced rice and corn production technology, and improved capacity in policy and planning.

Cartel Resistance and Loan Cancellation

In 2003, the Arroyo government requested the ADB to cancel the US$ 70 million of the policy loan due to its non-compliance of the desired timeframe of implementation. Recognizing that the investment loan was

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also linked with the policy loan, the partial cancellation of the US$ 68.4 million of the investment loan was also requested. The two GSDP loans were terminated by ADB by the end of 2003.

The issue of who would manage and control the operations of the national food security systems was the main reason why the GSDP, being the first sector loan to the Philippines, was stalled. It was too difficult for the government to oppose the interest groups who wanted to preserve the status quo in the grains market and the food security system – the local rice cartel. This is the risk that would accompany every lender-driven "reform".

Although the GSDP with the ADB was not completed, the Bank has rated it as "partially successful".

At this point, it is important to note that the free market philosophy will almost always come into conflict with oligopolistic environments set by cartels and the bureaucratic resistance of any government organization, whether a corporation or an agency, to any major restructuring, especially that which entails its gradual diminishing and privatization. In the case of the Philippines, the oligarchs in the rice cartel business will fight tooth-and-nail to protect their turf, while the NFA bureaucracy will naturally refuse their own privatization.

Nevertheless, the reforms proposed by the conditionalities attached to agricultural loans will present themselves as an alternative to the flawed status quo, with abusive institutions and defective controls. But the question remains to be whether or not these entrenched institutions and capital controls are really necessary, and whether or not there is another way of reforming these controls without dismantling them.

This brings us to the NFA.

The National Food Authority: Indebtedness towards Privatization

The mandate of National Food Authority is clear: "1) to ensure food security in staple cereals in times and places of calamity or emergency, whether natural or man-made; and 2) to stabilize the supply and price of staple serials both at the farm-gate and consumer levels… as strategic intervention towards achieving food 'security' and 'stabilization'" [Medina, 1999]. Both of these functions are dispensed through three flagship programs: the Direct Market Intervention Program, the Indirect Market Intervention Program, and the Regulations Program [2008, NFA website].

In Direct Market Intervention Program, NFA engages in procurement and distribution of grains in order to stabilize prices (through its approved Subsidized Pricing System) by intervening in the supply-demand balance and to maintain a desired buffer stock, which it can dispose during periods when supplies are low. The Indirect Market Intervention Program "focuses on facilitating farmer-stakeholder' access to and/or ownership of grains post-harvest and marketing facilities and services" [Medina, 1999]. The Regulations Program includes issuing licenses and monitoring the compliance of registered grains enterprises to NFA rules and regulations.

Let us take a look at the Direct Market Intervention Program. Notice that the fundamental imperative for proper and effective procurement and distribution of actual grains is the sound financial status of the NFA itself. As with other State Trading Enterprises (STE), the NFA must be able to afford the procurement of enough rice to fill its buffer requirement and to influence market prices.

The problem is, in the case of NFA, though that the subsidies are increasing, they are not enough to shoulder the cost of rising food commodities abroad.

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National Government Subsidy to National Food Authority (in million pesos)					
	2003	**2004**	**2005**	**2007**	**2008***
Programmed Subsidy	902	900	900	1,100	2,000

*Support for 2008 was listed as "Operations – Service Related". The rest were classified as "Operations – Developmental".

Table 4. *NG Subsidy to NFA. Sources: Table E.1./E.2 of Budget of Expenditures and Sources of Financing, Fiscal Year 2003-2005, 2007-2008. Department of Budget and Management (DBM). Comment: Budget for 2006 was reenacted.*

The solution of the government, as it had been in most aspect of its governance and financing, is to rely on debt. On the case of NFA, this takes form in the floating of bonds which will be brought by lenders. NFA, for so long now, had been living on credit. But unlike the old forms of GOCC indebtedness which the national government ends up assuming, NFA and other GOCCs are on their own.

In the recent years, the national government controlled the giving of sovereign guarantees on GOCC in order to mitigate the rise of its contingent liabilities. This forced GOCCs like NFA to resort to "collaterized" debt financing – wherein they get a loan in excess of what it needs and uses the differential to buy zero-coupon bonds as collateral for the principal debt. The value of collateral is expected to appreciate since the interest rates are projected to come down. The loans then will be repaid on time, freeing up the original collateral for repricing and for use in contracting for cheaper borrowings with better terms [Dumlao, 2007].

Last year, Land Bank Vice President Alex Macapagal estimated the that the face value of the seven-year zero- coupon bonds tied to existing NFA loans went up to P16.5 billion from only P11 billion when the bonds were purchased. Agriculture Secretary Arthur Yap then suggested the liquidation of some of those bond holdings [Dumlao, 2007].

Thus, we have a crucial government enterprise, mandated to ensure food price stability, which operations are at the mercy of the financial market. The bonds that it will contract for its future procurement and distribution for example, will either resort to more profit or indebtedness, depending on the movement of interest rates. Unfortunately, the government, learning from early GOCCs like formerly heavily indebted National Power Corporation (NPC) shies away from providing sovereign guarantees or assuming GOCC debts. Left on its own, the institution that is supposed to provide for food security cannot guarantee itself financial security.

To borrow, it is allowed. To borrow, it did. Last year alone, the NFA secured permission from the Bangko Sentral ng Pilipinas (BSP) Monetary Board to raise (read: borrow) as much as P35-billion pesos via a syndicated peso loan facility (loan facility of more than one bank). At least three consortia had been expected to bid for the contract. The first one is a group composed of Land Bank of the Philippines, Development Bank of the Philippines (DBP), Metropolitan Bank and Trust Co., Citibank, Hong Kong Shanghai Banking Corp. (HSBC), and ING Bank. Henry Sy's Banco de Oro (BDO) Universal Bank was also said to spearhead a separate consortium. The third group is composed of investment houses. The amount has been used to refinance short-term loans and fund operating expenses [Dumlao, 2007].

The credit system seems to be going fine for NFA, which is on a race to recover its financial stability. This, until it met the rising prices of food commodities, and it becomes harder for it to dispense on its mandate without borrowing more. Last year (2007), NFA estimated its losses from operations amounted to PhP 4.5 billon [Leyco, 2008; Remo, 2008].

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Thus, it relapsed back to the old-style GOCC borrowing. February 6 of this year, NFA auctioned PhP 8 billion (US$197 million) worth of its 10-year bonds. This time though, because of the rising cost of operations, the government agreed to give the bonds sovereign guarantee. Also, the interest rate shall be fixed for the life of the notes and payable semiannually. The bonds due in 2018 have a one-time call option at par in 2013. AB Capital and Investments Corp, Deutsche Bank, Multinational Investment Bancorporation, Philippine Commercial Capital Inc, SB Capital Investment Corp and the United Coconut Planters Bank were selected as joint issue managers. [Lema, 2008; Lorenzo and Reuters, 2008].

This kind of borrowing in the past led NFA in a very bad fiscal status. In the 2005 Annual Financial Report for GOCCs (Volume II-A) by the Commission on Audit (CoA), the NFA was listed as the top third GOCC with deficit, posting a PhP 34.46 billion deficit. Only NPC and Central Bank – Board of Liquidators (CB-BOL) posted higher deficits. In the 2006 CoA Report on Financial Performance of GOCC, NFA posted a negative PhP 42,694,836,850 worth of total equity, with PhP 70,638,813,080 worth of total liabilities. Only CB-BOL is worse.

Like the on earlier GOCCs, the solution of the neo-liberal government, following the dictates of creditors such as the ADB, had always been privatization. The past calls to privatize NFA were again repeated, recently, following the failure of the agency to fix its deficit status. Finance Secretary Margarito Teves reportedly wanted to privatize the marketing function of the National Food Authority (NFA), thus leaving the agency with just its regulatory function.

Conclusion and Recommendations

Freedom from Hunger, Freedom from Debt

It is clear at this point how the problem of debt compromises the entire chain – from debt-driven agricultural production, to distribution morphed by conditionalities to follow free market rules, to consumption regulated at most by an institution debilitated by lack of subsidy and consequent indebtedness.

The solution to this, of course, begins with production. As long as our government absolutely subscribes to the theory of comparative advantages – which states that national economies should focus on producing commodities and products they can produce the cheapest, then importing the rest from the global market – then we will always be vulnerable to external imbalances. As in the case of the current food crisis, the meager surplus generated by crop exporting countries like China and Vietnam had been eradicated by their rising domestic demand, decreasing the access of importing countries which have restructured their economies to suit the production of their so-called comparative advantages.

The Philippines should learn something about the practice of most Northern countries when it comes to global trading. While their rhetoric says open access and free trade, their practice shows subsidies and high tariffs. They themselves, through institutions like the European Union's CAP, are eager to protect their agricultural producers to make them ready to compete worldwide. These state subsidized producers are then made to compete with other producers in the world, especially those from Southern countries who were originally agriculture-based.

The problem for the Northern countries is, these Southern governments often shield themselves from competition by closing their domestic market. The solution thus is to utilize the recapitalization drive of Southern countries to dismantle such trade barriers by offering loans with structural conditionalities. They agree to beef up of your production, but only if you acquiesce to their neo-liberal rules, if you provide them market for their crops, and if you will not provide subsidy to your own farm producers who will be made to compete with funded foreign producers.

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Thus, we should also end the policy of depending on debt in order to beef up our economic and social sectors in order to avoid such conditionalities. After all, the payment of these debts constricts our budget further, and some of these debts end up being wasted only through inefficiency and corruption. Being big time money that will be paid up a few decades later, the corrupt politicians are less afraid of pocketing the huge sums in the form of commissions, nor are they less eager to see through that the project is completed. In most cases, domestic funding can be mobilized. The Arroyo administration in fact, already cancelled ODA financing of 11 questionable FAPs on such grounds.

So solution remains to be the strengthening of domestic agricultural production through domestic money, with the end view of attaining food self-sufficiency. But while our domestic producers are not yet able to produce all our domestic crop needs, there will still be need for importing. And here is where a strong State Trading Enterprise (STE) comes in.

Example of State Trading Enterprises in the World		
Country	**State Trading Enterprises**	**Commodity**
Indonesia	Badan Urusan Logistik (Bulog)	Wheat and Rice
Japan	Food Agency	Wheat, Rice and intermediate products
Japan	Japan Tobacco, Inc.	Leaf tobacco
Korea	Livestock Products Marketing Org.	Beef
Malaysia	Padiberas Nasional	Rice
Mexico	CONASUPO	Milk powder
Morocco	National Sugar and Tea Office	Raw sugar
Pakistan	Min. of Food, Agriculture and Cooperatives	Wheat
Tunisia	Grain Board	Wheat
Turkey	Soil Products Assoc.	Wheat

Table 5. *Example of STEs. Sources: United States Department of Agriculture - Economic Research Service (1997, November). State Trading Enterprises: Their Role As Importers. Agricultural Outlook.*

Japan, for example, has three STEs under its Ministry of Agriculture, Forestry, and Fisheries (MAFF) – its Food Agency, Japan Tobacco, Inc., and the Agricultural and Livestock Corporation – for a range of agricultural products. Japan's Food Agency was the sole importer of rice, wheat, and barley. Imports of wheat and wheat products by the Food Agency averaged $1.14 billion from 1993 through 1995; wheat imports accounted for about 77% of domestic supplies while rice imports accounted for 10% percent only of domestic supplies during this period [USDA, 1997].

South Korea agricultural policies aim to maximize self-sufficiency and to foster parity between urban and farm incomes. However, major differences between world prices and Korea's domestic prices for agricultural commodities have led to controls on imports to prevent producer price declines. This led to

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the creation of 8 STEs led by Ministry of Agriculture and Forestry (MAF), Livestock Products Marketing Org. (LPMO) for example, engaged in importing a plethora of agricultural products, from soybeans to pine nuts [USDA, 1997].

The Philippines should follow Japan and South Korea's path, which is to strengthen their STE through institutional support i.e. through policy support and adequate subsidies. It is important to note that some STEs are really operated at a loss since it is to cushion domestic consumers from exogenous shocks. In this case, the STE must be able to utilize exported products as leverage in obtaining imported products at their optimum prices.

Sadly, STE in Southern governments all follow the same path. Philippines NFA finds its parallel with Indonesia's Badan Urusan Logistik (Bulog), which has a goal of stabilizing domestic rice prices at affordable levels but adequate to stimulate production. Bulog historically had monopoly control of the international rice trade but never controlled more than 10% of the domestic market. While it has become an intermittent exporter and continues to stabilise domestic prices, it is no longer the sole importer and/or exporter of rice, sugar, wheat and wheat flour, soybean, and garlic [Pierce and Morrison, 2008].

The key in mitigating hunger is, as a matter of common sense, is gaining the ability for such mitigation, and this can only be done if the government has its hand free from debt dependence. There is no substitute for self-sufficiency, especially in a period when the global market itself is threatened by internal imbalances.

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