



# Philippines

## FFF-Philippines: towards a smallholder-inclusive Agricultural Commodity Exchange

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The Philippines holds a distinct position among emerging South-East Asian economies. Comparing major development indicators for the Philippines with neighbouring countries of similar demographic size (such as Thailand, Indonesia and Vietnam), it is apparent that while the average per capita GDP has increased in the four countries, the growth has been faster in Indonesia and Vietnam. In the Philippines, the per capita GDP has grown by a factor of 1.6 between 1990 and 2010, whereas in Indonesia and Vietnam, it grew 2.2 and 3.0 fold, respectively and in Thailand 1.4. While this slower growth in the Phil-

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ippines and Thailand can be explained by the higher initial average per capita GDP in these countries relative to the two others, it should be underlined that this favourable initial position has not translated into a lower poverty rate for the Philippines at the present time. In 2010, according to the World Bank, 27 per cent of the population in the Philippines lived below the poverty line, whereas this was 15 per cent in Indonesia and Vietnam and 9 per cent in Thailand. In short, Filipino growth during the last decade has had a relatively smaller impact in terms of poverty reduction than in neighbouring countries.

The Philippines also distinguishes itself from the other countries by having a faster decrease of the value of agriculture in the economy; the average share of agriculture in the total GDP decreased from 19 per cent in the 1990s, down to an average of 13 per cent in the years between 2000 and 2010, while the average percentage for the 2000-10 decade is at 15 per cent and 21 per cent in Indonesia and Vietnam, respectively, and has even increased from 10 to 12 per cent in Thailand. Along the same lines, there is a higher rate of urbanisation among the population of the Philippines than in the other countries, which again illustrates the decline of the agricultural sector. This rapid decline of the importance of agriculture in the economy translates into a lower share of agricultural raw products and food products in the total value of exports, while food imports are greater than for the other large Southeast Asian countries. The structure of agricultural trading also reflects the specialisation of the Filipino agriculture, with exports being dominated by rather high-value products produced and processed by the agro-food industries (e.g., copra, bananas, pineapple and fruit juices). At the same time, the country recognises a trade deficit in staple food and feed, with rice and wheat being the major imports.

These indicators also reflect the difficulties faced by Filipino agriculture and its smallholders in particular in responding to the needs of an expanding urban market, and thereby missing an opportunity to reduce the poverty level in rural areas. Agricultural production takes place in a precarious environment marked by recurrent climatic calamities such as typhoons, floods, and landslides. Furthermore, the archipelagic and mountainous configuration of the Filipino countryside induce high costs for linking scattered and remote areas to major markets. Last but not least, the agricultural sector is characterised by highly skewed land distribution, with approximately 3 million rural households owning an average of 2 ha of land coexisting with 13,000 private properties of up to 20,000 ha.

Combining rural poverty reduction strategies and food security objectives for a fast growing urban population in such a polarised agricultural economy has been and remains a challenging task for successive Filipino governments. While state intervention in the marketing of staple crops (rice and maize) and control of food imports has historically been one of the major policy instruments to support agricultural development, these options have been gradually reconsidered under the WTO agreements and the increasing integration of the Philippines into the ASEAN Free Trade Area (AFTA). This new context requires the government to radically redesign its agricultural policy and the instruments used to implement it. To what extent can this increasing opening up of Filipino agriculture to global competition take place without further jeopardising outlets for the smaller and poorest farmers?

Farmer organisations play an active role in this debate, benefiting from a long experience of political struggle dating from opposition to the colonial power and to the Marcos dictatorship. The current political scene revolves around the strategies of powerful political dynasties built upon strong relation-

ships with local constituencies. However, the Philippines benefits from active and operational political institutions, in which various social groups keep their power through a democratic process that has proven resilient, even after experiencing several crises throughout the years. Politics and policy debates showed impact in shaping the course of public policies. Hence, the Philippines offers a rather enabling environment for applying the ESFIM paradigm, as farmer organisations already have experience in making their voices heard and lobbying within the policy arena.

The Federation of Free Farmers (FFF) has been in charge of implementing the Filipino component of ESFIM. Established in 1953, it is one of the oldest farmer organisations in the country. The FFF has a Federation, in charge of lobbying activities and farmers' participation in the policy dialogue, as well as a commercial branch, the Federation for Free Farmers Cooperative, Inc. (FFFCI), in charge of economic and support activities (collective marketing, technical and management support and training to FFF members). The FFF vision to empower farmers through participation in a democratic process promoting reforms differs from more radical farmer organisations in the Filipino political landscape. FFF has a long tradition of interactions with various political institutions (government, parliament...) to promote its view and influence, as much as possible, the regulations and public policies that shape the transformation of the Filipino agriculture. In particular, the FFF has held a key position in the debate about Filipino adhesion to the WTO and its potential impact on rural livelihoods. Furthermore, the charismatic and strong leadership of the FFF have also been very active on the international stage: Raul Montemayor, the FFF National Manager, has been one of the vice presidents of International Federation of Agricultural Producers (IFAP) and the FFF has participated in several regional and international projects and initiatives.

## Development challenge

The specific objective and content of the ESFIM collaborative project in the Philippines was designed during a two-day workshop organised in February 2009. While the process along which the collaborative project was defined adhered formally to the ESFIM methodology, its content diverged to a large extent from the expected types of action to be implemented within the ESFIM context. As a matter of fact, rather than going through a complete review and prioritisation of the various constraints preventing the empowerment of small-scale farmers on agricultural market, the workshop eventually placed the focus on the assessment of one single objective: the implementation of an Agricultural Commodity Exchange Systems (ACES), based on an electronic trading system, to improve market transparency and efficiency.

The establishment of a commodity exchange system based on an electronic platform echoes similar initiatives in various developing countries, especially in Sub-Saharan Africa and Asia. In the case of the Philippines, this initiative followed previous actions taken by the NFA, including the design and attempt to make operational an electronic trading system for maize, including a warehouse receipt system, processing and grading facilities, etc. A joint assessment by NFA and other agricultural institutions, including the FFF, of the shortcomings of these previous initiatives concluded that it was necessary to open and share the formulation and the design of the systems with all the different stakeholders involved in agricultural marketing (agro-food industries, traders, farmers and NFA). ESFIM was viewed as one opportunity to support this participatory process for the design of the improved exchange system. The workshop ended with a set of recommendations about the design of the ACES and its rules of operation. Furthermore, actions to be taken were listed and included in a first project proposal.

This priority given by FFF to the ACE must be placed into the Filipino context. The large market power held by major traders, combined with the physical obstacles that increase marketing costs throughout the country (e.g., distance, scattered supply and procurement points throughout the archipelago) has been considered as a major constraint for improving the position of smallholders on the market. Moreover, the wave of reforms in public intervention on major agricultural markets has pushed for a redefinition of the institutional setting in which these markets operate and in particular the role of the National Food Authority (NFA), the Filipino marketing board. For farmers' representatives, and the FFF in particular, the NFA reform is an important issue. Even though, the ESFIM partners in the Philippines acknowledge the criticisms to the shortcomings of the NFA operation, new mechanisms, or institutional arrangements that could reduce as much as possible market asymmetries and unequal power, remains an issue.

## Collaborative research support

The unexpected orientation and format of the Filipino collaborative project generated concerns among the AGRINATURA and IFAP project team. Questions were raised about the possible drawback of focusing the collaborative project on only one thematic area, at the risk of ignoring other strategic issues. Another part of the discussion dealt with the expected impact of a ACES on the inclusion of small farmers in the market, arguing that this type of institutional set-up are generally more useful for larger farms than for smaller ones. A consensus was reached to support the Filipino project, provided that ESFIM funds would be more specifically allocated to an assessment of how the ACES could serve the interests of smaller farmers.

The delay in funding in 2009 provided an opportunity to revise and streamline the initial proposal. The first version of the project proposal included a broad range of actions, from the investigation of legal issues associated with the implementation of the ACES to the launching of a pilot implementation of the system. The revised version focused on understanding how smallholders may interact with planned ACES marketing. The collaborative research included four components:

1. ACES Baseline Survey for Palay (rough rice or rice grain) and Corn (maize)
2. Monitoring and Documentation of ACES Implementation,
3. Designing material for ACES Workshop for Small-scale Farmers and other Stakeholders
4. Conducting ACES Workshops

The objective of the survey was to have an up-to-date understanding of smallholders' marketing practices and a better knowledge of their perception about marketing issues and their potential interest in an ACES. The monitoring and documentation of the ACES implementation was intended to keep record of the various steps through which the system was developed. As already mentioned, several commodity exchange systems have been launched worldwide in the past decade, but the Filipino ESFIM team found only a limited number of references on the practical implications of these initiatives and how they were developed. Accordingly, it was decided to produce a document that could be used by others as a reference on the ACES experience. The organisation of workshops with farmers and other stakeholders aimed at facilitating information exchange and discussion about the ACES. In order to have a fruitful debate focusing on practical issues related to the utilisation of the ACES it was decided to develop a simple game simulating how the system operates; this device could help an audience having a low education level to understand the ACES mechanism.

The project was implemented and coordinated by the FFF National Manager, and benefited from his long experience and extensive knowledge of Filipino rural development issues, with the assistance of two consultants that also had a broad expertise on agricultural marketing issues. This core team was part of the steering committee put in place under the auspices of the NFA to follow up the actual implementation of the ACES. The strong link between the ACES development and the ESFIM collaborative research allowed FFF to be part of the learning process associated with the development and the design of the system. For example, the FFF National Manager participated in the study tour organised by NFA in three sub-Saharan countries where commodity exchange systems were operational or being implemented. Through these activities FFF was also able to bring farmers' views and concerns into the steering committee debate and provided a number of key inputs into the debate about the potential impact of the projected ACES.

The analysis of the baseline survey on farmers marketing practices pointed out that the ACES would be an attractive option for them but only when a number of conditions were met. The report concludes specifically that: "The original postulate that farmers who process their produce before harvesting, bring them to buyers directly and borrow from formal lending institutions would be most inclined to wean themselves away from traditional traders and sell through the ACES does not seem to be validated convincingly by the data" (Survey of rice and corn farmers and evaluation of the need for an Agricultural Commodity Exchange System (ACES), p18). The report emphasised that logistical (transportation, physical access to buying stations) and post-harvest constraints (drying, cleaning) hinder the smallholders' position on the market more than market asymmetries and financial constraints (e.g. credit) do. It underlines that the design of the ACES would have to take into account these constraints for the system to benefit the smallholders. This would imply that it is necessary to have more flexibility in quality standards at an initial stage, and that providing post-harvest services would enhance the capacity of smallholders to use the ACES.

The outcomes of the four workshops organised in different grain producing areas corroborated the conclusions of the baseline survey. The workshop brought together smallholders' representatives and other stakeholders of the maize value chain (traders, feed millers...) to present how the ACES will operate and to discuss whether the proposed design was compatible with their requirements. In order to support and trigger exchanges between the participants, the ESFIM team used the above-mentioned game, that simulates how transactions will be set up through an Enhanced Electronic Trading System (EETS) (i.e., enhanced compared to the previous system developed by NFA before 2009). This innovative training tool allowed the various categories of participant to understand clearly how the system operates, and as such is a key input of the ESFIM project to capacity building of farmers. Further-



more, the simulation game also improved the quality of exchanges between the participants, because it placed all participants on the same level, irrespective of the size of their business and their market knowledge. Mixing different kinds of stakeholders in each group “playing” the simulation game also improved the quality of the discussions. The workshops were therefore able to facilitate the extensive and constructive discussion of issues such as the quality of the grain that would be traded, the size of the basic contract and other related constraints (agricultural and marketing practices, credit, logistics, etc.). The workshops provided key inputs for the development of the ACES and for the identification of constraints that should be addressed. They also offered an adequate arena to express farmers’ views on the proposed system.

## Advocacy outcomes

The ESFIM collaborative project focused more on analysing the potential impact of the ACES on smallholders’ empowerment in the market rather than on the formulation of a farmers’ position to be defended at the policy level, although the two perspectives are linked. As a matter of fact, the public support needed to establish the ACES, at least at an early stage, came from the various agricultural markets players (farmers, traders, agro-food industries, etc.). While the wide and diverse attendance of the 2009 inception workshop confirmed the interest of various stakeholders in the project, at the end of 2012 the utilisation of the system by the different players is still far from being evident. Moreover, the delay and difficulties faced in making ACES operational at the same time provided the opportunity to extend the discussion about the potential impact of the ACES on farmer’s empowerment. Conversely, the absence of an operational system may have hindered the identification of potential issues for the various agricultural market stakeholders. The collaborative research and the related debate may have taken on a different perspective if the system had already been operational.

The ESFIM collaborative project provided a venue to strengthen interactions not only between farmers and NFA, but also with the private sector, and to develop a common understanding of what the system could offer. The project has generated knowledge about the capacity and profile of farmers that could use the system with the initial design, and this information has been used as much as possible in the improvement incorporated into the later system. In addition to obtaining input from farmers for the ACES, the effective participation of the FFF National Manager in the steering committee of the ACES project has also been critical in ensuring that farmers’ views were taken into account. Thus did the ESFIM collaborative research fulfil both objectives: generating evidence-based knowledge to backstop the position of farmer organisations and supporting FFF participation in the policy dialogue.

## Partnership

The implementation of the collaborative research was mainly managed by a core group including the National Manager of the FFF and a team of specialists, in consultation with AGRINATURA researchers. Given the rather technical nature of the issues concerned, interactions with other stakeholders and farmers in particular was initially rather limited. It should be underlined that the inception and concluding workshop assembled a wide variety of stakeholders, including representatives from FFF and other farmer organisations, NGOs and the private sector. The National Food Authority, which supports and oversees the ACES development project, was a key partner for ESFIM. The collaboration with the NFA was constructive and balanced, benefiting from a long history of relations between FFF leaders and the public institutions. The high level of education of the whole core group led to an endogenous process in terms of analysis. There was no collaboration with other sources of expertise, such as from the academic institutions.

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The collaboration with AGRINATURA scientists was also very open and balanced, with each partner being able to express his or her views about the direction and the methods of the research. While the view of the AGRINATURA scientists have been duly considered, FFF and its Filipino partners always took the final decisions about the management and the direction of the project. In the Philippines, the collaborative research benefited only at the end of the process of the expertise of Gideon Onumah from NRI who has an extensive knowledge about the establishment of commodity exchange systems in Sub-Saharan Africa, although it would have been more efficient to involve him in an earlier phase in the collaboration with FFF.

## Lessons learnt

- The Filipino case shows that given appropriate tools, it is possible to involve farmers and farmers’ organisations in technical discussions, whatever the complexity of the subject and their level of education. The development of the simulation game and the way it has been applied to support the discussion between farmers and other agricultural market stakeholders is certainly a tangible and valuable asset for this collaborative research that could be used on other occasions.
- Another lesson learnt from the Philippines is that focusing on a single issue may not be detrimental to a wider exercise in terms of capacity building. Actually, the discussion about the design and launching of the ACES brought into the debate a number of crucial issues related to market access for smallholders (e.g. post-harvest technology and quality issues, collective marketing, credit, market information and grading systems) in a structured and orderly manner. Similarly, while focusing project activities around a single issue may initially have been perceived as a risky option, it was also the expression of a strong commitment and interest on the part of the FFF and its partners to work on the project. The issue has been addressed rigorously and frankly, as the outcomes of the baseline survey and of the workshops discussions have been taken into account by the promoters of the project.
- Great attention was paid to the selection and ranking of themes in each country in the ESFIM collaborative research methodology in order to identify key research areas. The Filipino case shows that in spite of the complexity of the topic pursued and the nature of the project, which was oriented toward the implementation of an institutional arrangement (i.e., more towards development than research), this collaborative research produced valuable knowledge for understanding how the ACES could benefit the smallholder. Hence, the ESFIM methodology is compatible with the implementation of a development-oriented project, especially when this offers the perspective for a steep learning curve.

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