



National Food Authority: Its Role in Price Stability and Food Security ¹

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Introduction

Rice is a major agricultural commodity in the country. More than two million households or roughly 10 million Filipinos are engaged in rice-based farming. In 2012 alone, rice contributed more than 26% of the PhP 1,060 billion total gross value added (GVA) of the agriculture sector (NSCB, 2013).³ It is the country's foremost food grain that accounts for the largest share of an average Filipino food basket. Particularly in the diet of the poor, it contributes for as much as 34% of the total food expenditure of the bottom 20% of households (ADB, 2008)⁴.

Rice, in fact, is considered a highly political commodity such that an increase in its price can also prompt workers to demand for wage increases (Balicasan, 2007). Its great impact to the food security of majority of the Filipinos especially the poor, highlights the importance of stabilizing rice prices. Hence, primarily to achieve security of supply and price stability especially on primary grain commodities in the country, the policy to create the National Food Authority through PD 1770 was enacted on January 14, 1981.

Pertinent laws and other issuances on NFA

On September 6, 1972, Presidential Decree (PD) No. 4 or the National Grains Industry Development Authority also known as the National Grains Authority (NGA) was created to promote the integrated growth and development of the grains industry.⁵ This decree abolished two agencies, namely, the Rice and Corn Board (RICOB) and the Rice and Corn Administration (RCA) but absorbed their respective functions.⁶ In addition, NGA was vested additional functions aimed at developing the grains postharvest systems and processes by virtue of PD No. 699 (12 May 1975). NGA's mandate was further expanded by virtue of PD No. 1485 (11 June 1978) to include the growth and development of grain substitutes as mungbeans, sorghum, peanut, soybeans, and cassava. It was also granted regulatory and supervisory powers exercised by the NGA Council.⁷

Whereas, the functions and powers of the NGA created under PD No. 4 as amended by PD No. 699 and 1485 were limited to the grains industry, the PD No. 1770 (14 January 1981) was issued which reconstituted the NGA into what is now the National Food Authority (NFA). The decree mandates to promote the integrated growth and development of basic food commodities so it can adequately function as an institution conscious of its social

¹ A short policy paper submitted to the Food and Fertilizer Technology Center (FFTC) for the project titled "Asia-Pacific Information Platform in Agricultural Policy". Short policy papers, as corollary outputs of the project, describe pertinent Philippine laws and regulations on agriculture, aquatic and natural resources.

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³ At current prices

⁴ In contrast, rice consumption takes up 12 percent of the total food expenditures by the richest 20% of households

⁵ This includes rice, corn, and feed grains

⁶ The former was then regulating the rice and corn retail trade and was tasked to nationalize it within a target date. The latter was in-charge of marketing or distribution of government low-priced rice especially during lean months.

⁷ The NGA Council was mandated to establish rules and regulations concerning the importation of grain and their substitutes.

responsibilities, capable of maintaining an adequate and continuous food supply and contributing its proper share to the economy. However, on May 31, 1985, Executive Order (EO) No. 1028 was issued and provided for the deregulation of NFA's non-grains marketing activities as well as the lifting of price controls or ceilings on rice and corn.

The National Food Authority's role

Highlighting the significance of rice in the Philippine society, National Food Authority (NFA) was crafted with the intention of protecting the interests of both rice farmers and consumers. As such, the agency's two primary mandates are to ensure food security and to stabilize the supply and price of rice, the primary grain in the country. The latter mandate means that the NFA tries to influence prices on two fronts, i.e., to stabilize the price of rice consistent with farm prices that are remunerative to the country's rice farmers and to manage reasonable retail prices for the country's consumers. Meanwhile, the former mandate requires the NFA to provide an immediate supply of rice to calamity-stricken areas and to ensure that rice prices are restored to pre-emergency levels within two weeks.

The NFA aims to achieve its twin mandates through the regulation of factors that affect the demand and supply of rice. To date, the agency performs various activities and strategies to intervene directly in the rice market which include procurement of paddy from rice farmers, subsidized retailing of rice to low-income consumers, buffer stocking, and importation of rice during shortage period. The NFA has also instituted a number of indirect market interventions such as dispersal of paddy and milled rice to strategic locations and distribution of the staple grain to various marketing outlets at appropriate times of the year.

In addition, NFA is set-up as a corporation and is vested to do the following: regulates the post-harvest facilities e.g. mills, warehouses; and borrow at commercial rates and with guarantees from the national government.⁸

Powers and functions of NFA⁹

NFA's price stabilization function. The mandate of stabilizing rice prices requires the NFA to ensure a stable supply of rice through various measures. The NFA procures "palay", rice in its raw form, from farmers at a price that is higher than the market-determined farm gate price, and then sell the same to consumers at a price that is lower than the market-determined retail price.¹⁰ The two major activities that comprise the stabilization of prices include procurement and distribution operations.

Procurement operations. NFA's procurement price is initially determined based on analyses conducted by the Rice Inter-Agency Committee (IAC), which then recommends to the Secretary of Agriculture the procurement price used by the NFA in a particular season. From the same analyses, the NFA Management also makes its recommendations to the NFA Council. Both the NFA Council and the Secretary of Agriculture then make their respective recommendations to the President of the Philippines, who then makes the final decision.

Distribution operations. The NFA provides a subsidy for rice consumption aside from providing support to farmers. That is, it sells rice at a price that is lower than the market-determined retail price. This ensures that the price of the staple commodity remains affordable to consumers, particularly low-income families.

NFA's food security function. The second primary mandate of ensuring food security requires that the NFA maintain and manage buffer stocks through the importation of rice.

Rice importation. When there is an actual (projected) critical demand-supply gap and during a state of calamity (emergency), the country resorts to rice importation. The volume to be imported is determined

⁸ Moreover, its off-budget spending is automatically appropriated

⁹ Discussion is based from SEPO PB-10-04 and PD No. 1770

¹⁰ The NFA, therefore, is said to be "buying high and selling low"

by an inter-agency committee on rice and corn headed by the Department of Agriculture (DA) Secretary.¹¹ While NFA allows private traders to import rice through an issuance of a quantity restriction (QR) or setting a minimum access volume (MAV), the NFA continues to account for the bulk of rice imports.¹²

Buffer stocking activities. For most of the year (November 1 to June 30), the NFA is required to maintain in its warehouses rice stocks equivalent to 15 days of consumption for the entire country.¹³ The “ideal” level of the national stock has been decided by the government to be equivalent to 90 days or three months of consumption, which is equivalent to the period of the lean season when traditionally there are no harvests from the domestic rice crop. These rice reserves will be used by the NFA for rice distribution requirements of emergency relief agencies, e.g. Department of Social Welfare and Development (DSWD), during times of calamities and shortages.

Other pertinent provisions of PD No. 1770

The composition of the NFA Council was modified to include the Minister of Human Settlements as Chairman. As such, the investment and loans of the Human Settlements Development Corporation in the Food Terminal, Inc. were transferred to NFA. While the authorized capital stock was set at PHP 5 billion, NFA’s fund will be sourced out from: (1) official development assistance to the Philippines government such as food aid; (2) payments made by the National Government (NG) on loans drawn by or for the NFA and NGA; (3) subsidy from the NG out of funds appropriated in the annual budget; (4) funding and other organizational provisions intended for the national food programs including those provided as special financing program, seed fund, cooperative loans, and livelihood projects; (5) loans from the government and domestic private lending institutions; and (6) Central Bank of the Philippines (CBP) now the Bangko Sentral ng Pilipinas (BSP).

The cost of NFA operations

The two primary mandates of the NFA are goals that any good government should strive for and achieve. However, there is a historically growing consensus among economists that with the NFA monopoly on rice importation, the costs imposed by the NFA operations on Philippine economy far outweigh the benefits to rice producers and consumers.¹⁴

For this purpose, the government has been looking into the possibility of restructuring, decoupling, streamlining or privatizing certain activities of the NFA. In fact in the last ten years, several bills were filed in the Congress designed to make NFA more relevant to the needs of times including one that was crafted by the NFA community. These are summarized below:

1. EO 366 of the 13th Congress- proposed to address the leakage errors of the NFA’s rice program and increase the agency’s efficiency;
2. Senate Bill (SB) 2618 of the 14th Congress- proposed to transform the NFA from a grain marketing monopoly to a public regulatory agency;
3. SB No. 1396 of the 14th Congress- sought to re-organize the NFA by separating its commercial and regulatory functions and thereby creating two agencies in lieu of the NFA;
4. SB No. 818 of the 14th Congress- proposed to create a so-called National Grains Council to which the regulatory functions of the NFA are to be assigned. Meanwhile, NFA’s proprietary functions are to be transferred to a new corporation with government equity;
5. SB No. 2347 of the 15th Congress- proposed the decoupling of NFA’s proprietary and regulatory functions. The National Strategic Food Reserve Corporation will provide the maintenance of strategic reserves in basic food commodities, while the regulatory functions of the NFA will be reverted to the DA and the management of food subsidies for the poor will be transferred to the DSWD;
6. SB No. 772 of the 15th Congress- sought to streamline government intervention in the rice sector by

¹¹ Other members include: BAS, DTI, NAFC, NEDA, NFA, BAI. DA-Rice Program. Phil. Farmers Advisory Board & PAGASA

¹² The bulk of rice imports contracted by the NFA are on a government-to-government basis

¹³ The NFA’s stock is part of the national stock of rice, with balance being held in households and private warehouses

¹⁴ Between 2003-2008, government spending on NFA programs, on the average, surpassed spending on agrarian reform, research and development, and extension services

- removing the rice importation function of the NFA and allowing private sector participation;
7. SB No. 741 & 876 of the 15th Congress- sought to establish a strategic food security and rice reserve equivalent to 15-day national rice consumption to be managed by the NFA.

Conclusion

Pursuant to our national policy of agricultural modernization and sustainable poverty reduction, the creation of NFA is one of the most important policies in the Philippines. The two primary mandates of the NFA come with the associated tasks of ensuring low and stable rice prices for rural farmers as an approach for food security. While the objective is noble, there is a need to re-examine the NFA to determine strategies and mechanisms to optimize its operation.

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