

**TRANSFORMING THE COCONUT INDUSTRY:
INSTITUTIONAL AND POLICY REFORMS
TOWARD SHARED DEVELOPMENT**

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This dissertation entitled "TRANFORMING THE COCONUT INDUSTRY: INSTITUTIONAL AND POLICY REFORMS TOWARD SHARED DEVELOPMENT" prepared and submitted by JOSE V. ROMERO, JR. in partial fulfillment of the requirements for the degree of DOCTOR OF PHILOSOPHY IN DEVELOPMENT MANAGEMENT (Major in Political Economy) has been examined and is recommended for acceptance and approval for ORAL EXAMINATION.

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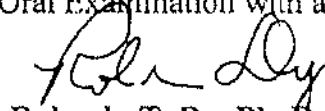

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He started his career in government as an Assistant Statistician in the Central Bank of the Philippines. Later, he was Consultant to the National Economic Council and Director General of the Congressional Economic Planning Office. In 1987, he served as Undersecretary of Agriculture and Chairman of the Philippine Coconut Authority (PCA). From 1989 to 1990, he was elected Executive Director of the Common Fund for Commodities, United Nations, representing Maldives, Bhutan, Korea and the Philippines. As Philippine Ambassador to the Republic of Italy from 1989 to 1992, he was concurrently Ambassador to the Food and Agriculture Organization (FAO), Chairman of the Inter-governmental Group for Oilseeds, Oils and Fats (IGOOF), and Permanent Representative to the International Food and Agriculture Development (IFAD). In 1992,

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ABBREVIATIONS

ACIAR	Australian Center for International Agriculture Research
ADB	Asian Development Bank
APCC	Asia Pacific Coconut Community
ASEAN	Association of Southeast Nations
B	Billion
CCSF	Coconut Consumers Stabilization Funds
CIDF	Coconut Industry Development Fund
CHF	Coconut Industry Investment Fund
CIRAD	Centre de Cooperation Internationale en Recherche Agronomique Pour la Developpement
CNO	Crude Coconut Oil
COCOFED	Philippine Coconut Producers Federation
COINS	Coconut Industry Statistics
CRC	Center for Research and Communications
DCN	Desiccated Coconut
EO	Executive Order
EPR	Effective Protection Rates
ESCAP	Economic and Social Commission for Asia and the Pacific
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
GNP	Gross Net Product
GVA	Gross Value Added
ha	Hectare
ILO	International Labour Force
kg	Kilogram
LGU	Local Government Unit
LOI	Letter of Instruction
M	Million
MCT	Medium Chain Triglycerides
MMT	Million Metric Tons
MT	Metric Tons
NEDA	National Economic Development Authority
NGO	Non-Government Organization
NPR	Nominal Protection Rates
PCA	Philippine Coconut Authority
PCARRD	Philippine Council for Agriculture, Forestry and Natural Resources Research and Development
PCRDF	Philippine Coconut Research & Development Foundation
PD	Presidential Decree
PhP	Philippine Peso
PIDS	Philippine Institute for Development Studies
PIE	Productivity, Income and Employment
PKO	Palm Kernel Oil
PNB	Philippine National Bank
PO	Palm Oil
RA	Republic Act
RATCOMDS	Rationalization Of Coconut Oil Mill & Desiccating Subsectors
SO	Special Order
UCAP	United Coconut Association of the Philippines
UCPB	United Coconut Planters Bank
Unicom	United Coconut Oil Mills
WB	World Bank

ABSTRACT

JOSE V. ROMERO, JR. University of Asia and the Pacific. May 2005. **Transforming The Coconut Industry: Institutional and Policy Reforms Toward Shared Development.**

Thesis Adviser: Dr. Bernardo A. Villegas

The general objective of the study is to analyze the impact on the coconut industry in general and small coconut farms in particular, of the COCOFED and crony capitalists' influenced policy initiatives in the sixties through the early eighties. Specifically, the study seeks to: (a) establish a direct link between a powerful sector of the oligarchy - the COCOFED/CRONY capitalists group - and the underdevelopment of the coconut industry during the patrimonial regime of a dictatorial president which persists to this day; (b) determine the specific impact of the set of policies inspired and influenced by the above group on the coconut industry as a whole and on the livelihood and quality of life of the small coconut farmers, using economic analysis and policy review; and (c) recommend a comprehensive plan to maximize the productivity, income and employment of small coconut farmers, promote a level playing field for the coconut industry in a free and competitive market, and promote optimum government policy intervention.

The study used policy research to trace the causal relationship between the policy interventions in the seventies and early eighties and the influence of the industry players in the formulation of these policies. The COCOFED/crony capitalists' influence on policies agricultural policy (i.e., policies related to programs designed to increase

productivity and improve farm technology, e.g., hybridization (Bugsuk project), monocropping, intercropping, etc.); industrial Policy (i.e., programs geared toward value adding and forward integration (e.g. UNICOM); financial policy (i.e., financial structuring of the industry (e.g. UCPB, CIIF); fiscal policy (i.e., the incidence of coconut levies and tariffs and their impact on coconut farmer income; and commercial policy (i.e., the effect of trade policies on the industry (e.g. export ban, UNICOM monopoly). The study also used nominal protection rates to determine the economic impact of the coconut levies.

The results of the study showed that through the undue influence of the COCOFED/crony capitalists, the Marcos government embarked on a vertical integration program which systematized the development of the coconut industry through the integration of different aspects from production and processing to exportation. This allowed the group to reap the benefit from processed production which commanded a better price in the world market.

The period of the 70s up to the mid-eighties saw the discrimination policies directed at the coconut farmers. By calculating nominal protection rates from producers during the period, it was possible to see that the total negative protection rate of the industry.

Estimates suggest that the levy accounted for at least 43 percent of coconut farmer gross income. This exacerbated the plight of typical coconut regions like Bicol, ARMM, Eastern Visayas and Mindanao, which also have the highest unemployment rates.

The export taxes/premium duties on copra and coconut oil discussed in previous pages together with the levies, drove a wedge between farmgate and export prices. The Unicom with its monopsony power in copra purchases in the early eighties increased further the wedge between farmgate prices and export market prices.

Finally, in addition to the direct intervention above economy wide policies affected farmgate prices by means of trade and monetary policies such as the ban on copra exports and the overvaluation of the exchange rate.

In sum, the rent reaped by the COCOFED/crony capitalists by drawing a wedge between farm and export prices increased with policies limiting competition with lowered prices for copra producers while protecting the coconut oil mills. Sadly, the promised benefits to farmers from the levies have not trickled down to this day.

In proposing a new development paradigm for the industry, the study was guided by, among others, the social doctrine of the Church. This doctrine is associated with the principle of a social market economy as applied to sectors of an economy. One underlying assumption of the doctrine is that peasant agriculture cannot make a high return on investments nor even, as a rule, enough trading profits to furnish the capital necessary for its own development and the normal exercise of its affairs. It is therefore deemed necessary by social market economists, for reasons of the common good, to evolve a special credit policy and to create credit institutes that will guarantee to agriculture credit at rates of interest considered reasonable. The doctrine also provides agriculturists with two forms of safety nets. One concerns insurance for their agricultural produce, and the other the basic necessities of the labor force and their families.

The general recommendations revolve around five central topics: a) review of development parameters; b) policy review; c) farm focused development paradigm; d) research and development; and 5) institutional reforms.

Review of development parameters. There is need for a development paradigm shift. Past development efforts to attain income equity have failed dismally because the coconut sector is still characterized by a highly skewed distribution of income. To arrest the potentially inequitable situation, government should now spearhead the restructuring of policies for economic growth. It should emphasize that from now on priority will be to ensure that the benefits of growth shall accrue to small coconut farmers, farm workers and coco-based entrepreneurs, who should become the primary determinants and beneficiaries of policies affecting the coconut industry.

Policy Review. To get out of the developmental bog that the industry has been mired in because of flawed government intervention of the past as the result of crony capitalism which produced excessive discrimination and negative protection for the farms, there is need to review the policy mix attending the development of the coconut industry.

Policy review is a continuing need of the coconut industry, as in other industries, especially now that efforts to make the industry more dynamic are being done. Restructuring of the industry has its primary objectives of increasing employment of labor absorption, adding value to the economy, and earning foreign exchange, among others.

Farm-focused Development Paradigm. The principal objective of coconut industry policies is to promote higher levels of productivity, income and employment in the farms. The coconut farmer should be the principal beneficiary of policies directed at the coconut industry. Accordingly, the recovered coconut levies should be deployed for farm development.

Research and development. It is axiomatic that without adequate research and development the Philippine coconut industry cannot obtain full value recovery from the coconut nor be globally competitive. It is therefore important to promote R&D in the industry.

Institutional reforms. It is axiomatic that the industry re-structuring and development paradigm shifts will come to naught unless there is the right kind of government intervention as contrasted to its flawed intervention in the past.

This should come in the form of institutional reforms that can guarantee credit access and an efficient input delivery system which should insure the reduction of transaction costs and thus global competition.