No More False Assurances
End the Hybrid Rice Commercialization Program Now!

SEARICE

In 2005, SEARICE[1] , Rice Watch and Action Network (R1) and other civil society organizations criticized the Hybrid Rice Commercialization Program (HRCP) because of possible massive corruption in the implementation of the HRCP where PhP 494 million of recovered Marcos-ill gotten funds went to hybrid subsidies of non-agrarian reform beneficiaries, substantial procurement of hybrid seeds by PhilRice were not supported with the list of recipients, unresolved technological issues behind hybrid rice technology with persistent seed quality and disease vulnerability problems and continuing failings of the program in addressing rice self-sufficiency. According to the 2006 COA report, rice importation by NFA in CYs 2004 and 2005 increased to 900,000 mt and 1,791,726 mt., respectively, from 610,000 mt in 2003 equivalent to 148% to 294%.

Several legislators in both the Congress and the Senate over the past two years have also mirrored the civil society organizations' concerns and raised questions on the cost-efficiency of HRCP viz addressing rice self-sufficiency of the country. Legislators' questions during the deliberation of the 2006 and 2007 Budget of the Department of Agriculture (DA) delved into the massive subsidies spent on hybrid rice seeds, with questionable beneficiaries highlighting the mis-use of recovered Marcos ill-gotten wealth funds, which by law is intended to support agrarian reform beneficiaries (ARBs).

In the Senate Committee Hearing on the DA budget on November 9, 2006, former Senator Franklin Drilon asked assurance from the officials of the Department of Agriculture present during the deliberation that "this would be the last time the government is going to support HRCP". *Ginintuang Masaganang Ani* (GMA) Rice Director Frisco Malabanan gave the assurance that, "Yes, this is as per recommendation of the Technical Working Group headed by PhilRice after last years' issue and budget hearings".

[1] Southeast Asia Regional Initiatives for Community Empowerment (SEARICE) works with farmers in partnershio with civil society organizations and government agencies in the Philippines, Thailand, Vietnam, Lao PDR and Bhutan towards the conservation, development and sustainable utilization of plant genetic resources..

What happened to these pronouncements?

In disrespect to the assurance made by DA to Philippine Congress and Senate, DA Sec. Arthur Yap, in early 2007, recommended to President Gloria Macapagal-Arroyo the extension of the hybrid rice seeds subsidy program for another three years reportedly "to help farmers cope with increasing price of farm inputs like fertilizer and pesticides" (Businessworld, January 31,2007).

This meant that for the next three years, the Department of Agriculture will again spend PhP 400 million yearly just to subsidize hybrid rice seeds, modern certified seeds and synthetic chemical inputs. This, on top of the PhP 4 billion yearly support for the construction and rehabilitation of irrigation facilities that is a basic requirement before hybrid rice can be grown.

Box 1. A Brief Review of what HRCP is all about:

Hybrid Rice Commercialization Program (HRCP) initiated in 2001, is the centerpiece strategy of the governments' *Ginintuang Masaganang Ani* (GMA) program to attain rice self-sufficiency in the country. The HRCP aims to replicate China's success on hybrid rice by investing heavily into hybrid rice technology, including research and development, seeds production, procurement and distribution, establishment of production support facilities, and provision of subsidies and other incentives to participating farmers, among others. With the use of hybrid rice technology, it is believed that average rice production would yield 15-30%.

The HRCP was also incorporated as one of the key strategies under the Presidents' One-Million Jobs Program, a special program designed to generate employment and alleviate rural poverty. The strategy is hinged on the belief that hybrid rice technology would be able to create rural employment. From an initial target of 50,000 hectares in 2002 for hybrid rice adoption, target has been set at 214,000 hectares in 2005 and has been maintained at 200,000 per year.

Originally, HRCP was set only for 2001 to 2005. However, the program has been extended for two more years, from 2006 to 2007. Should the Department of Agriculture again extend the HRCP until 2010, it would be the second time that the program will be extended.

With the the Philippine's experiences even during the Green Revolution, seed subsidies were justified to help ease the introduction of new technologies, reduce the initial adoption and support market development. According to the report done by World bank, the continuing provision of input subsidies serve only to increase private profit margins at the expense of broader agricultural growth and at the expense of public expenditures. "The art of public policy making, therefore, is to know when to introduce government intervention and when to withdraw. The common mistake is to forget the withdrawal part, leading to unsustainably high cost – a dilemma that the Philippines was confronted today. (Cummings and others, 2006 as cited in World Bank, 2007).

When the Philippine Congress deliberate on the Budget of the Department of Agriculture for 2008, Rice Watch and Action Network (R1) and SEARICE call legislators to look deeply into HRCP especially on seed subsidies and possible corruption. Especially at a time that the Government is facing a budget deficit of PhP 63 billion. R1 and SEARICE call on legislators to compel the Department of Agriculture to honor its assurance before the Senate and Congress to End the HRCP in 2007.

Why End HRCP Now? : Continuing Issues and Concerns Behind Hybrid Rice Commercialization Program

1. HRCP misallocated public funds

- **Mis-allocation and possible corruption of Marcos-ill gotten Wealth Funds intended for agrarian reform beneficiaries**

In 2004, part of the recovered Marcos ill-gotten wealth supposedly intended for land acquisition and support to agrarian reform beneficiaries under the Comprehensive Agrarian Reform Law (CARL) were used to fund the HRCP. A total of PhP 494 million of the total PhP 544 million released by DAR to DA was transferred for the implementation of the HRCP component for the Dry season (November 2004-April 2005), according to the COA 2006 Sectoral Performance Audit on the Utilization of Forfeited Swiss Deposits for the Implementation of the Comprehensive Agrarian Reform Program (CARP) (COA, 2006). Accordingly, CARP's funds intended for ARBs were released to DA because the reenacted budget for CY 2004 covers only the funding requirements for the 200,000 hectares during the wet season and that PhP 447 million is still needed to cover 400,000 hectares for the wet season (COA, 2006).

However, agrarian reform beneficiaries did not benefit from these. DAR failed to provide master list of ARBs to DA, leaving the discretion to LGUs and the DA to identify the beneficiaries. According to the COA report (2006), the "***ARBs were not considered as the beneficiaries of the program***" as it cited various

Memoranda of Agreement with PhilRice and DA regional field units (RFUs) in the aggregate amounts of PhP 394 million and PhP 100 million, respectively, for the procurement and distribution of farm inputs/ implements.

In the copies of DAR liquidation report submitted to the office of Cong. Danilo Suarez in 2005, the number of ARBs who were able to benefit from the PhP 394 million funds spent on hybrid rice seed procurement and distribution was only 20% (DA reply to COA audit team indicated 21%) of the total number of farmer-beneficiaries reported. During dry season 2004-2005, this was just 17.26% of the 103,917 farmer-beneficiaries reported by the DA. Computing the cost of the benefits (at PhP 1,200 per subsidized sack per beneficiary), the amount that went to ARBs is equivalent to only PhP 52,000,800 leaving bulk of the PhP 394 million to non-ARBs and landed seed producers!

- **HRCP diverted even LGU's meager resources for extension support**

On top of the huge allocation for HRCP from the DA-OSEC budget, extension machineries of the local government units (LGUs) were particularly exhausted for HRCP. Quoting the World Bank review (2007), "The program substantially diverted the time of DA staff managing the program at the national level; and LGU staff responsible for selling the seeds, providing training, monitoring the program progress and collecting debts from participating farmers. LGU staff, for example, was given an addition PhP 200 salary per month for selling hybrid seeds and distributing other inputs to farmers. This incentive has diverted LGU staff away from more relevant local projects and the more pressing problems of agriculture and the rural areas".

LGU staff's participation in the promotion of the program has sowed doubts from the perspective of farmers in farming communities especially when problems with hybrid rice production arose (i.e. non-germination of delivered hybrid seeds, pest and disease attacks on several hybrid varieties) as LGU extension workers

directly deals with the farmers. Their credibility in promoting hybrid rice also comes into doubt since they are entitled to incentives for every bag of hybrid rice distributed (SEARICE, 2006).

2. *HRCP wasted taxpayers' money with costly seed and fertilizer subsidies*

The *Ginintuang Masagang Ani* (GMA) rice program, particularly the HRCP gets 85% of the DA's public expenditure program on crop production support . Accordingly, 54.2 % of the DA's whole expenditure on crop production support and 70.3% of the GMA rice program was allocated for seed procurement and distribution, as well as support to other rice seeds and fertilizers (World Bank, 2007).

Table 1. Budget Allocation for the Seed Sector (in million pesos)

	2001 (a)	**2002 (a)**	**2003 (a)**	**2004 (a)**	**2005 (a)**	**2006 (b)**	**2007 (b)**
Hybrid seeds program	322	424	285	551	785		319,227 + 80,773 additional quality
Other certified seeds	190	168	211	114	118		100,000
Others including fertilizers for Hybrid seeds program	14	118	442	355	210		
GMA rice	n/a	1,400	1,229	1,020	1,113	1,870,557	1,788,414
Total MFO	1,333	1,415	1,948	1,928	1,811		

Sources: (a) World Bank 2007.
(b) F. Malabanan, 2007. GMA Rice Program. Focusing on Increasing Provincial Productivity. Powerpoint presentation.

Despite these, HRCP consistently failed to reach its ambitious targets for the promotion and commercialization of hybrid rice. Initial target was 50,000 hectares in 2001 and 300,000 hectares by 2004. However, from 2001 to 2003, the program's original targets were amended downwards as the actual coverage in terms of area planted consistently fell short of the targets. Surprisingly, in 2004,

the target was increased from 300,000 hectares to more than 416,000 hectares even though the actual area planted for that year was reported at 316,000 hectares.

This also meant that bulk of the DA's rice production support actually subsidizes less than 300,000 hectares of rice areas in the entire country . The Philippines has a total irrigated rice area of 1.4 million hectares. Highest coverage is noted in 2005, yet this is only about 11% of the total rice area of the Philippines.

Table 2. Target and actual areas (has) for hybrid rice in the HRCP.

Year	Original Targets	Revised Targets	Actual Area Planted (WS and DS)	Actual Area Harvested (WS and DS)
2001	50,000	33,702	12,550	12,196
2002	135,000	81,328	46,824	46,336
2003	200,000	186,393	132,520	129,542
2004	300,000	433,796	316,114	205,558

Source: DA (2005) as cited in SEARICE (2006).

This poses a lot of risks especially that bulk (70.3%) of the DA's whole production support for rice was poured in to barely 11% of the rice areas of the country. What could have happen if environmental disaster or pest outbreak hit these areas?

Furthermore, does this mean that 90% of the rice areas in the country just have to contend with the remaining 30% of the DA's appropriation for rice production support?

3. HRCP encouraged skewed seed subsidy policies and Government losing to hybrid seeds suppliers

The recently published 2006 COA audit on the Department of Agriculture report noted, "***Seed grower cooperatives and various seed companies were selling commercially, certified hybrid seeds at lower prices than the prices prescribed by the DA, an indication of the management's failure to exercise prudence to get the most advantageous prices for the government and the farmer-beneficiaries (****item 17, page 73*) ".

Validation of the COA further revealed that on the PhP 36 million worth of subsidy paid by the government from the 65,000 bags of certified seeds (worth PhP 82 million) distributed to farmer beneficiaries in Dry Season 2005-2006 (November 2005- April 2006), the selling price of hybrid seeds sold in commercial markets was lower than the prices set by the Government and in fact, the same as the farmers' equity paid in the LGU offices (Table 4).

Table 4. Comparative Seed Prices between Agriculture supply stores and Government Subsidized Price.

Variety	No. of Kilos Per Bag	Selling Price (Agriculture supply stores)	Government Subsidized Price (HRCP)		
			Government subsidy	Farmers equity	Total Price
SL 8H	20 kgs	**1,500**	1,300	1,200	**2,500**
Bigante	15 kgs	**2,250 (P750 per 5 kg-pack)**	975	2,160	**3,135**
M 3	20 kgs	**1,100**	1,300	750	**2,400**
Bioseed 401	16 kgs	**1,840 (P920 per 8 kgs)**	1,040	1,900	**2,940**

Source: COA 2006 Audit Report on the Department of Agriculture.

Clearly, the government is in the losing end as the DA has been subsidizing hybrid seeds since 2002. Is it the government or is it the private sector that determines the procurement price for hybrid seeds? What are the bases for

pricing system of hybrid seeds? Seed companies and seed suppliers have been 'riding on' and has been taking advantage of the HRCP with an assured market and saving on promotion/ marketing costs at the expense of the Filipino taxpayers' money.

Notwithstanding, experts pointed out this high cost of hybrid seed production and distribution as early as 2004. In a cost comparison between the Government and Private Sector, the estimated cost of hybrid rice seed production and distribution for government is reportedly "high (P6,100 per 20 kgs per bag) while the cost for the private sector was half as much (Table 5). The cost of wastage alone (because of seed deterioration and mismatch between supply and demand at certain location and time) amounted to around PhP 800 per bag for the public sector (World Bank, 2007).

Table 5. Estimated Cost of Hybrid Seed Production and Distribution (PhP per 20 kg/bag).

	Government	**Private Sector**
Procurement/ field production cost	2,400	1,600[d]
Direct distribution cost of PhilRice	300 [a]	
Distribution/ promotion cost	1,500[b]	1,800[e]
Cost of inspection	100	
Costs of wages	800[c]	
Subtotal	5,100	**3,400**
Other Incentives	1,000	
Total (excluding research and development)	**6,100**	

Note: [a]. excludes salaries of personnel and other direct costs of PhilRice involvement; [b] Based on conservative assumption that 120 agricultural technicians are involved in hybrid seed distribution; [c] Assume 30% of hybrid seed procured end up not being planted because of germination and purity problems; [d] Based on estimated of cooperatives; [f]. Based on estimates of Bayer Crop Science, which include cost of storage, freight, distribution, market development, and profits.
Source: David (2004) as cited in World Bank (2007)

4. HRCP produced No net social and economic benefits for Filipino rice farmers

According to the technical working paper on the Philippines' Agriculture Public Expenditure recently released by the World Bank (2007), the "HRCP did not produce much net social benefits". The review particularly noted that adoption of hybrid rice by farmers has been slow and that drop-out rate ranged from 50-99% (World Bank, 2007).

Even the 2005 Audit report of the Commission on Audit (COA) on the Department of Agriculture highlighted similar findings and indicated that the program failed in providing adequate technical assistance to farmers in 9 out of 14 regions (see direct quotes in Box 2).

Box 2. **Executive Summary of the Auditors' Report on the 2005 Department of Agriculture Audit.**

Auditors' Findings on Hybrid Rice Commercialization Program:

10. At least an average of 78% of farmer-beneficiaries interviewed in 7 regions declared increase productions from hybrid rice compared to inbred varieties (pars. 224-245). But in 9 out of 10 regions it is gathered that failure to provide adequate technical assistance on hybrid rice farming techniques, immediately attend to the problems of the farmers on the delay/inadequate supply of hybrid rice seeds, poor quality seeds, high cost of fertilizer, inadequate supply of bacterial leaf blight (BLB) stopper contributed to the increase production costs and lesser yields than expected, dissipating the objectives of the GMA hybrid rice program (pars. 246-273). In this program, unaccounted hybrid seeds worth P 8.8 millions and fertilizer coupons/ discounts denied by the farmers were noted.
11. The data collection process in the field were quite unreliable which have rendered inaccurate the reported increase in the national average yield during the wet season of May – October 2004 and dry season of November 2004- 2005 of 5.61% and 6.18%.

source: Commission on Audit (2006). Auditors' Report on the Department of Agriculture for the year 2005. www.coa.gov.ph

SEARICE (2006), on its 2005 assessment study on the Impact of Hybrid Rice Technology and Commercialization Program on Community and National Seed Systems of the Philippines suggested that providing seed production support particularly hybrid seeds to farmers is an unsustainable intervention. Hybrid rice can only be economically viable for one cropping cycle. Farmers could not replant or save the seeds the following season and expect the same performance as the previous season. Hence, farmers will have to purchase new seeds the next cropping season which translates to additional costs for them.

SEARICE's assessment study also revealed that hybrid rice is more costly to produce. Farmers interviewed in Isabela, Nueva Ecija, Iloilo and Davao del Sur incurred higher costs on hybrid seeds (48%), fertilizers (24%), pesticides (19%) and labor (transplanting) (91%) as compared to farmers who have opted to plant inbred varieties.

5. HRCP consistently failed to address rice self-sufficiency

HRCP is built on a promise that it will contribute in addressing rice self-sufficiency by increasing rice production and subsequently reducing the level of country's rice importation. Albeit the continuous pouring of public funds to finance the HRCP, the program remains futile in abating the level of rice importation. In fact, in 2004 and 2005, the level of rice importation by the NFA jumped to 148% and 294% respectively from the 2003 level.

Table 6. Level of rice importation from 2001-2006

Year	Level of importation (metric tons) *	Budget Allocation for HRCP** (in hundred millions PhP)
2006	1,622,090.40	454
2005	1,804,783.95	785
2004	984,074.65	551
2003	697,836.40	285
2002	1,238,366.20	424
2001	739,428.00	322

Source: *http://www.nfa.gov.ph/nfa18.html; ** David(2006), DA (2006,2007) as cited in World Bank (2007)

Notwithstanding, the contribution of hybrid rice production to total rice production in irrigated areas remain insignificant. Its annual growth just corresponds to the annual increase in budgetary allocation for HRCP (Figure 1).

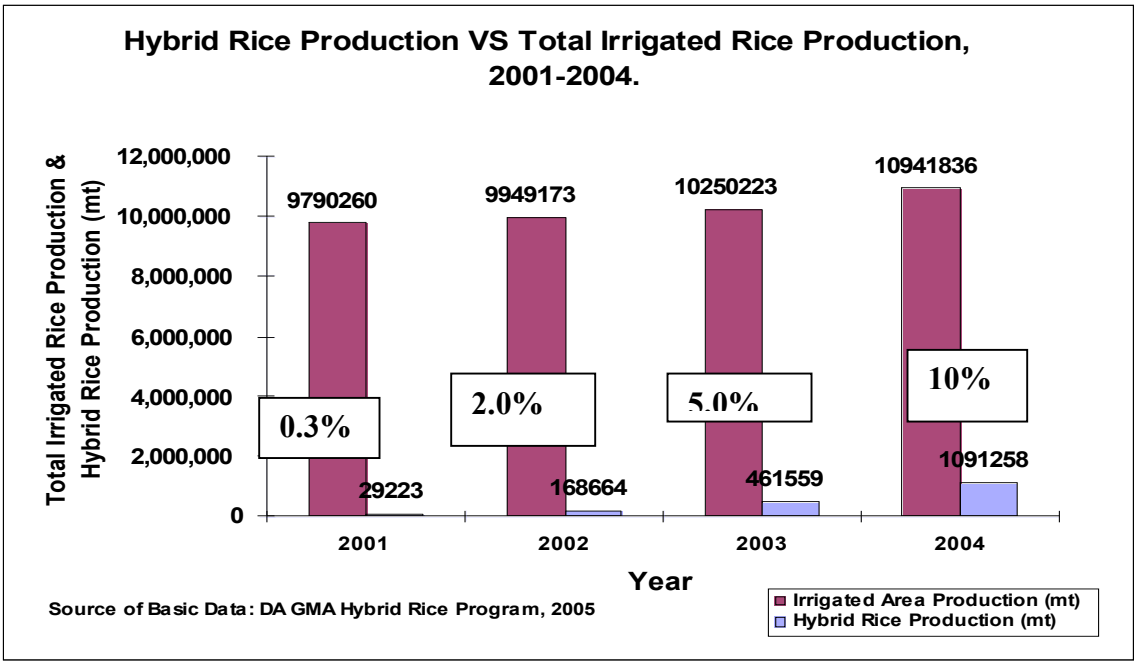

Figure 1. Contribution of hybrid rice to total irrigated rice production, 2001-2004[2]

The Department of Agriculture (DA) early last year openly admitted that the program failed (PDI, March 2006). Albeit, it continues to fund the program and is even extending it convinced that hybrid rice is the technological option available that increases rice productivity but whose field performance remains debatable (given the high drop out rate). The DA has ignored the fact that it is the 90% poorly supported inbred rice seeds that is producing the bulk of domestic rice production. Moreover, hybrid rice technology and its implementation particularly the seed subsidy is just too costly. COA's observations on its annual agency reports and even its Sectoral Performance Audit on the recovered ill-gotten Marcos wealth funds indicated implementation problems rooting from wrong design and poor system of implementation and monitoring.

[2] Adapted from Gonzales L. Midterm Assessment of the Hybrid Rice Commercialization Program. Presented during the PhilRICE 18th National R & D Conference, 15-17 March 2005. Munoz, Nueva Ecija.

Recommendations:

Considering these points raised, the government particularly the DA should not just bank and lay all its eggs on one basket – seeds which unfortunately is just 9% of the entire rice production problem. The experience with the HRCP attests to this.

Rather than allocate the meager resources for HRCP, the Department of Agriculture should instead, focus on strengthening farmers capacities to manage their seed systems through the devolved extension system. Like the Provincial Government of Bohol in close collaboration with civil society networks and local academic institutions have successfully implemented a rice seeds conservation, development and sustainable use program thru Farmer Field School over the last two years utilizing meager resources mobilized. Vietnam, which now produces bulk of our rice imports have actually implemented a similar program with farmers now producing tons of quality inbred seeds on their own with only strong extension technical support from Local governments.

It is about time to rethink the whole rice self-sufficiency plan and the current direction where our rice sector is leading to. Hybrid rice, a technology imported from China, is not the only technological option available. The Philippines has rice varieties which remains under-researched and underutilized. Farmers in North Cotabato, Sultan Kudarat, Bohol, Bicol and other provinces using local rice varieties, are able to develop and bred varieties that are adaptable to their specific conditions and with comparable if not better yields as hybrid rice with minimal support. Farmers' seeds such as 'Bordagol' and 'Masipag' selections attest to these.

Rather than spend almost the entire chunk for Hybrid Rice, resources for the rice sector should instead be spent on:

a. strengthening of on-farm participatory research and extension programs with emphasis on developing capacities of farmers and local extension agents (LGUs) than mere provision of unsustainable subsidies and incentives such as seeds, fertilizers and pesticides. In particular, on-farm participatory researches and extension programs should focus more on the main production bottlenecks such as addressing soil fertility problems and rehabilitation of degraded soils, managing pests and diseases, strengthening of farmers' local seed systems and providing value addition to rice. Already, there are already tested methodologies such as the Farmer Field School (FFS) approach originally developed by the Food and Agriculture Organization (FAO) for Integrated Pest Management (IPM). The FFS approach has been already adapted to different disciplines not only on pests but also on integrated soil fertility management, plant genetic resources (PGR)/ seeds conservation, development and sustainable use, system of rice intensification (SRI) and even on post-harvest processing and handling;
b. Addressing major production gaps such as irrigation, post-harvests with sustainable, cost-effective and manageable systems wherein farmers groups have the more active role in management of the facilities and infrastructures in close collaboration with Local Government Units providing the technical support. Rather than mere consulting farmers during the implementation of the projects, farmers should be consulted prior and even periodically during the project implementation.
c. Strengthening LGUs' extension capacities to respond to farmers' specific needs through regular and participatory planning, implementation, monitoring and evaluation processes with farmers' groups and regular performance appraisal trainings, ladderized trainings for local extension agents. Moreover, provincial and municipal agriculture offices should be properly equipped with adequate equipments such as soil testing laboratories where farmers can submit their soil samples for soil fertility analysis.

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